Dayton Hudson Corporation Annual Report -- 1981
America's Corporate Foundation; 1981; ProQuest Historical Annual Reports
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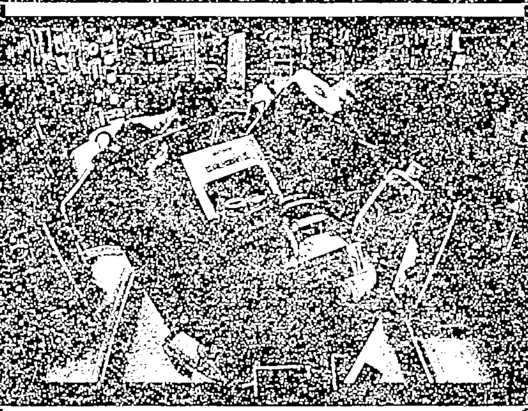
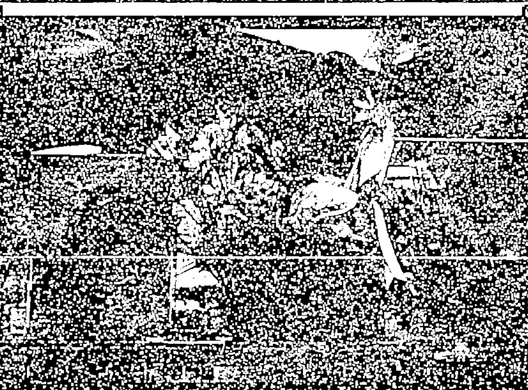
Dayton Hudson Corporation

Annual Report for 1981

Target

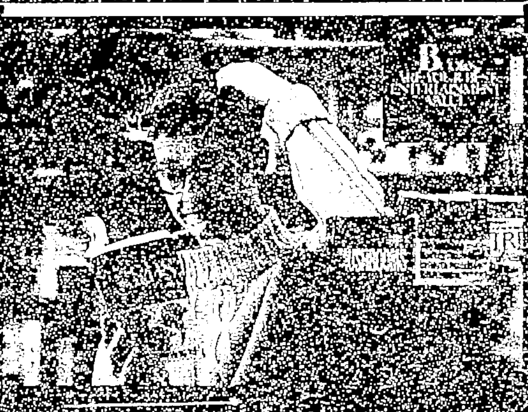


Mervyn's



Department Stores

Specialty Merchandisers



Highlights

	1981 52 Weeks Ended January 30, 1982	1980 52 Weeks Ended January 31, 1981	Percent Increase
Continuing Operations:			
Revenues	**$4,942.9**	$4,033.5	23%
Earnings before income taxes	**$ 287.5**	$ 250.3	15%
Income taxes	**$ 128.0**	$ 112.1	
Net earnings	**$ 159.5**	$ 138.2	15%
Net earnings per share	**$ 3.33**	$ 2.90	15%
Cash dividend paid per share	**$ 1.02½**	$ .92½	11%
Net earnings per share from discontinued real estate operations	**$ .29**	$ .18	
At Year-End:			
Shares outstanding	**48,004,009**	47,751,862	
Number of shareholders	**11,736**	11,815	
Retail square feet	**35,016,000**	32,538,000	
Number of stores	**925**	831	

All dollars in millions, except per-share amounts.

Per-share amounts and shares outstanding for 1980 have been restated to reflect a two-for-one Common Stock split effective November 30, 1981.

Dayton Hudson Corporation is a growth company focusing exclusively on retailing. At fiscal year-end, the Corporation was operating 925 stores in 47 states, the District of Columbia and Puerto Rico.

Dayton Hudson's primary business is to provide value, quality and fashion to the American consumer through multiple retail formats. Retail operations are conducted by eight companies, which are organized into four separate business segments:

Target

Target is a low-margin department store chain operating in 17 central states. Target stores offer a merchandise mix of two-thirds convenience-oriented hardlines and one-third midrange fashion softlines.

Mervyn's

Mervyn's is a softlines retail company with stores in California, Arizona, New Mexico, Nevada, Oregon, Washington, Utah and Texas. Mervyn's stores feature a popular-priced balance of nationally branded and private-label apparel, accessories and household softgoods.

Department Stores

> Hudson's > Dayton's
> Diamonds > John A. Brown

The department store group consists of four regional companies: *Hudson's* in Michigan, Ohio and Indiana; *Dayton's* in Minnesota, North Dakota, South Dakota and Wisconsin; *Diamonds* in Arizona and Nevada; and *John A. Brown* in Oklahoma.

Specialty Merchandisers

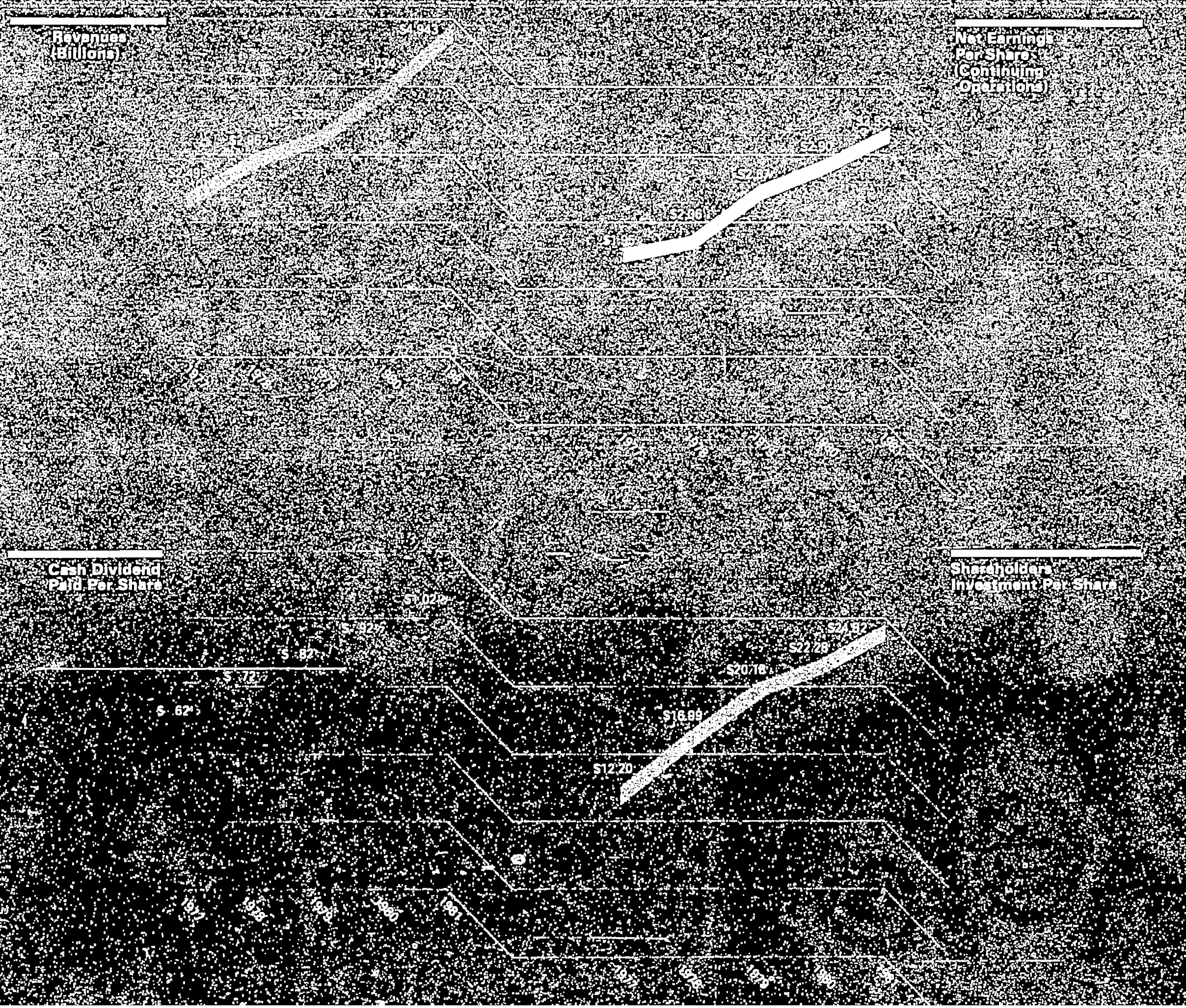
> B. Dalton Bookseller > Lechmere

Specialty merchandising operations are conducted by two multi-store companies: *B. Dalton Bookseller*, a national bookstore chain, and *Lechmere*, a New England hardlines retailer.

For a complete listing of store locations for each company, see pages 38-39.

Contents

Cover:
Photographs represent the merchandising strategies of Dayton Hudson's four business segments.


Revenues (Billions)
$4.943
$4.034
$2.962
$2.495
1977
1978
1979
1980
1981
Net Earnings Per Share (Continuing Operations)
$2.90
$2.06
Cash Dividend Paid Per Share
$.82
$.72
$.62
Shareholders Investment Per Share
$22.28
$20.18
$16.89
$12.20

To Our Shareholders:

For Dayton Hudson Corporation, the year 1981 was again one of record retail performance and continued growth.

Retail net earnings reached $3.33 per share in 1981, up 15% from $2.90 a year ago. Total revenues from retail operations increased 23% over last year.

Retail operations were strong throughout 1981, despite a recession which began in the last half of the year. Three of our four business segments—Target, Mervyn's and the specialty merchandisers group—achieved increases in operating profit (earnings from operations before corporate expense, interest expense and income taxes). The fourth, our department store group, reported a slight decline for the year. Total retail operating profit was up 26% over 1980.

We are encouraged by the results achieved in our three growth companies—Target, Mervyn's and B. Dalton Bookseller. Each continued its pattern of revenue and profit growth in 1981, contributing significantly to our total results for the year.

In the fourth quarter, our business benefited from relatively strong Christmas sales. Although the retail environment during the holiday season was highly promotional, operating profit was up 25%, with Mervyn's reporting a particularly large gain.

Interest expense increased substantially in 1981, reflecting a combination of higher interest rates and the planned increase in borrowing to support our expansion.

In 1981, our total capital investment in expansion, including capital expenditures and the present value of lease obligations, was $300 million, equal to the investment in the previous year. During 1981, we added 14 Target stores, 11 Mervyn's stores, four department stores and 65 specialty merchandising stores.

Plans for 1982 anticipate capital investment, including capital and operating leases, of approximately $350 million. Scheduled to open are 16 Target stores, 12 Mervyn's stores, one department store and approximately 110 B. Dalton stores. The new stores are expected to increase total retail space by approximately 2.8 million square feet.

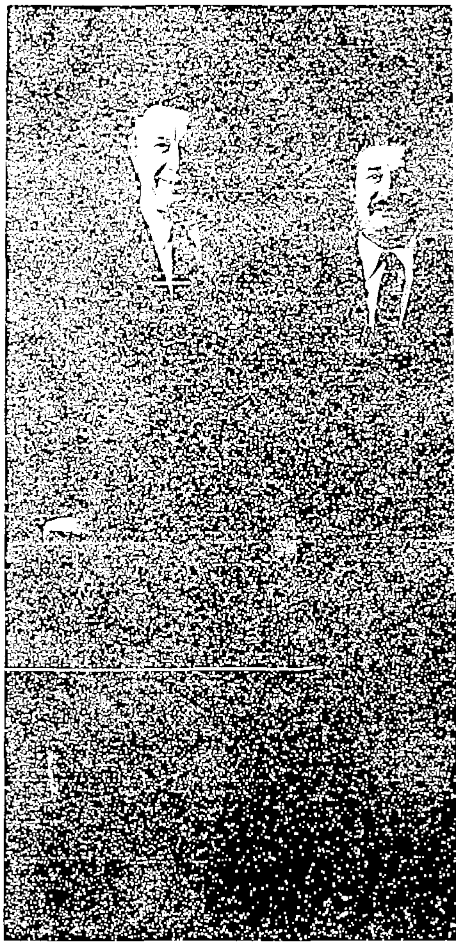
In support of our expansion plans, we completed in November a $100-million offering of 15¼% notes due in 1991. As a result, our ratio of debt (including all leases) to total capitalization at year-end increased to 39% from 35% at the end of 1980. This increase is consistent with our plans to raise our debt ratio above recent levels. Despite the increase, our level of debt remains low compared with that of retail corporations generally, and we continue to maintain what we consider to be a very strong financial position.

We further refined our retail portfolio in 1981 with the decision to sell Dayton Hudson Jewelers to Henry Birks & Sons Limited, a Montreal-based retail jewelry company.

We also made additional progress toward completing the disposition of our discontinued real estate business during 1981. The sale of our interests in four regional shopping center projects during the year produced net income of 29 cents per share. Our interests in several undeveloped land parcels and in three shopping centers remain to be sold. Future gains are not expected to be significant.

Our shareholders were directly affected by two actions taken by the Board of Directors during 1981. At its October meeting, the Board voted to approve a two-for-one Common Stock split effective November 30.

At the same meeting, the Board authorized an increase in the quarterly dividend from $.25 to $.27½ per share, payable on the split shares. The increased dividend, which was paid in the fourth quarter, brought the total dividend per share paid in 1981, after adjusting for the



Left to right:
William A. Andres
Kenneth A. Macke
Richard L. Schall
Aldo Papone

stock split, to a record $1.02½, up 11% from $.92½ paid in 1980. This is the tenth consecutive year in which we have increased dividends paid to our shareholders.

Two members of our senior management team assumed additional responsibilities during the past year. In addition, changes occurred within the Board of Directors and in Hudson's, our largest department store company.

Kenneth A. Macke, President of Dayton Hudson Corporation, became Chief Operating Officer effective January 1. Mr. Macke has overall responsibility for our retail operations. Three operating companies — Target, Hudson's and Diamonds — report directly to him.

Aldo Papone, formerly Executive Vice President, was named Vice Chairman and Group Officer effective January 1. Mr. Papone oversees the operations of Mervyn's, B. Dalton, Dayton's, John A. Brown and Lechmere.

The Board of Directors added two new members during the past year. Alva O. Way, President of American Express Company, was elected to the Board last May. Rand V. Araskog, Chairman and Chief Executive Officer of International Telephone and Telegraph Corporation, was elected in January.

Mervin G. Morris, Chairman Emeritus of Mervyn's, will retire from the Board of Directors in May, at the end of his present term. Mr. Morris founded Mervyn's in 1949 and served as its Chairman and Chief Executive Officer until 1979. His vision and commitment to excellence were responsible for the development of Mervyn's into one of the most successful companies in the retail industry. As CEO of Mervyn's, he was instrumental in successfully completing the merger with Dayton Hudson Corporation in 1978. His service as a director of the Corporation has been invaluable, and we deeply appreciate and will miss his contributions.

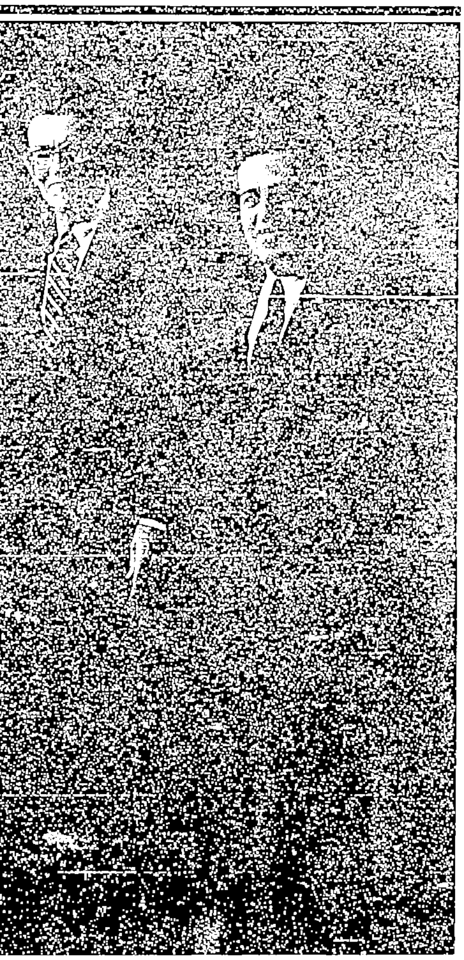
Joseph L. Hudson, Jr., Chairman of the J. L. Hudson Company and a Vice President and former director of the Corporation, retired March 1. Mr. Hudson joined Hudson's in 1950, becoming President and Chief Executive Officer in 1961. He served as Chairman and Chief Executive Officer of Hudson's from 1972 to 1981. We are indebted to him for his past leadership both as CEO of Hudson's and as an officer and director of Dayton Hudson Corporation.

Looking ahead to the rest of 1982, economic forecasters project a continuation of the current recession during the first half of the year. Consumer spending is expected to remain relatively weak, reflecting continuing concern over high interest rates and unemployment. We expect our sales to grow at a moderate pace during this period, as competition for the consumer's disposable income remains intense.

Business conditions should improve after mid-year as the economy begins to recover. As the upturn occurs, we believe consumers will regain confidence and their spending will strengthen. This improvement, resulting in part from the effects of tax cuts and anticipated further moderation in the inflation rate, points to a better retail environment in the last half of the year.

As we look beyond 1982 to the balance of the decade, we remain optimistic about the outlook for retailing in general and our own prospects in particular.

A number of major social and demographic changes are taking place which have favorable implications for retailing. We are alert to these changes, and we are making strategic business decisions accordingly. Our emphasis on long-term planning has served us well, giving us one of the strongest retail portfolios in the industry. We believe it will continue to do so in the future, enabling us to position our business to take full advantage of the many opportunities that lie ahead.



William A. Andres

William A. Andres
Chairman and Chief Executive Officer

Kenneth A. Macke
President and Chief Operating Officer

Richard L. Schall
Vice Chairman and Chief Administrative Officer

Aldo Papone
Vice Chairman and Group Officer

April 7, 1982

There is nothing permanent in the retail business—except change itself. In its most obvious form, change can be seen in our stores, where we offer a wide assortment of new merchandise in response to the changing tastes and preferences of our customers.

But as retailers, we must also anticipate and respond to more subtle changes that have far-reaching and long-term implications for our business—changes in consumer demographics, lifestyles and values, economic conditions, technology and competitive forces, all of which have had a profound impact on the retail business in recent years.

Those retailers who anticipated and planned for these changes by refining their business appropriately continue to endure and prosper today. Those who failed to do so have vanished from the retailing scene to be replaced by new and alternative formats—or they have lost valuable market share to their competition.

Nothing can diminish the importance of good merchandising to the retailer. But it is no longer enough to provide the right merchandise at the right time in the right place. With change accelerating faster than ever before, retailers must anticipate it if they are to operate their business for the long term. They must respond to change as it occurs rather than react to it after the fact. In short, they must *manage* change just as they manage any other facet of their business.

At Dayton Hudson, we employ a proven strategic planning process to manage change. Strategic planning is the process of formulating a clear picture of where we are, where we want to go and how we plan to get there. It enables us to seek out and identify the major issues that we must address—particularly those with the potential to change the environment in which we do business. Armed with this view of what lies ahead, we have been able to position our business to capitalize on opportunities and meet and overcome challenges.

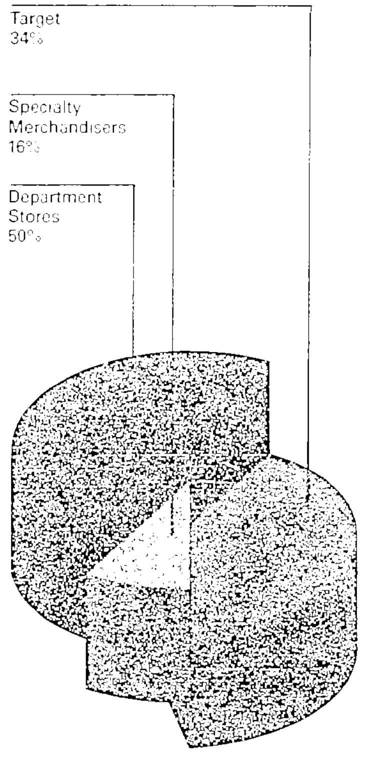
One of the most significant strategic issues to surface in recent years is the increasing importance of value to the retail shopper. We first identified this consumer focus during the 1974-75 recession, when many Americans experienced the worst economic setback they had ever known. Customers became far more alert to getting the most out of their shopping dollars. They began to scrutinize their purchases carefully, making each one more meaningful. They also made the concept of quality a more important part of their value definition.

Amid the high inflation and shrinking disposable income that followed, this focus on value and its link with quality intensified. Today, as we face once again the prospect of continuing inflation and slower economic growth, the search for value has become perhaps the most important consumer trend of the 1980s.

As we developed our long-range plans during the last half of the 1970s, we recognized that this emerging value-orientation signaled the need for a shift in our strategic direction. We began to reposition our business accordingly, directing increased capital for expansion to Target and completing our merger with Mervyn's.

A Shift in Strategic Direction

1977 Revenues



Since then, Target has become the largest of our operating companies, accounting for 42% of total 1981 revenues. Mervyn's has more than doubled in size since the merger, reaching $1 billion in sales in 1981 and providing 21% of total revenues for the year. Today these companies—generally recognized as two of the most successful value-oriented retailers in America—represent nearly two-thirds of our business.

At the same time, we are well-positioned to respond to other major consumer trends that are changing the character of the retail marketplace. For example, consumers are becoming more fashion-oriented than ever before—a trend that our department stores respond to with new and exciting merchandise selections. Consumers are also growing increasingly selective and discerning in their shopping. Our specialty merchandisers are responding with specialized merchandise offerings, thorough product knowledge and high levels of service.

Our attention to the long-term strategic aspects of our business has paid off in the form of a retail portfolio that is appropriate for the times.

Although we began as a department store retailer, we can no longer be classified as such when only one-fourth of our total revenues are derived from department store operations. With eight autonomous operating companies, we cannot be called a chain store company. Nor can we accurately be perceived as a specialty retailer, although B. Dalton Bookseller is one of the largest specialty retail companies in the nation.

Rather, Dayton Hudson is a *growth* company that focuses exclusively on retailing. We consider it our primary business to provide value, quality and fashion to the American consumer through our multiple retail formats.

Our growth priorities lie first with the companies which currently make up our portfolio, building strong positions in existing markets through new store additions or the development of new merchandise strategies within existing stores. A secondary priority is to expand our companies into new markets.

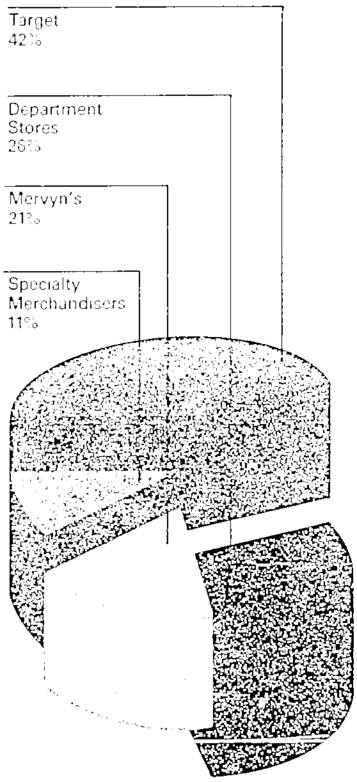
Next in priority is growth through new internally developed retailing ventures or the acquisition of other retail companies which are strategically and financially compatible with our operations.

We are able to rank our growth priorities in this manner because we are in the enviable and unique position of having three successful growth companies—Target, Mervyn's and B. Dalton Bookseller. It is to these companies that we are directing more than 90% of the total capital we have allocated over the next five years.

At the same time, however, we remain continually alert to viable internal ventures or acquisition candidates that can become our growth companies for the next decade and beyond.

Our emphasis on long-term planning as a key management tool has enabled us to assemble a growth-oriented retail portfolio that has no counterpart in the industry today. We have every confidence that by continuing to plan strategically for the long term, we can maintain and strengthen our position as we move forward in the 1980s.

1981 Revenues



(Millions)	1981	1980	1979
Revenues	$2,054.3	$1,531.7	$1,120.5
*Operating Profit**	$ 108.7	$ 91.1	$ 72.9
Stores	151	137**	80
*Retail Square Feet (000)****	14,679	13,229	8,197

*Operating profit is LIFO earnings from operations before corporate expense, interest expense and income taxes.
**Includes 40 Ayr-Way stores totaling 3,338 square feet of retail space.
***Total square feet less office, warehouse and vacant space.

Financial Results

Target's annual revenues surpassed the $2 billion mark in 1981, increasing 34% over the previous year. The revenue totals for 1981 and 1980 include results from 40 Ayr-Way stores acquired in the third quarter of 1980. Excluding their contribution, Target's revenues increased 25% in 1981.

Target's operating profit contribution increased 19% in 1981. Earnings were reduced somewhat by the planned cost of remodeling and converting the Ayr-Way units into Target stores.

The Ayr-Way conversion program was completed according to plan in the third quarter. The former Ayr-Way units now form a separate operating region of Target. Customer response has been good in all markets.

Target's gross margin rate in the second half of the year was affected by a highly promotional environment in most of its markets. For the year, however, the gross margin rate was up slightly from last year.

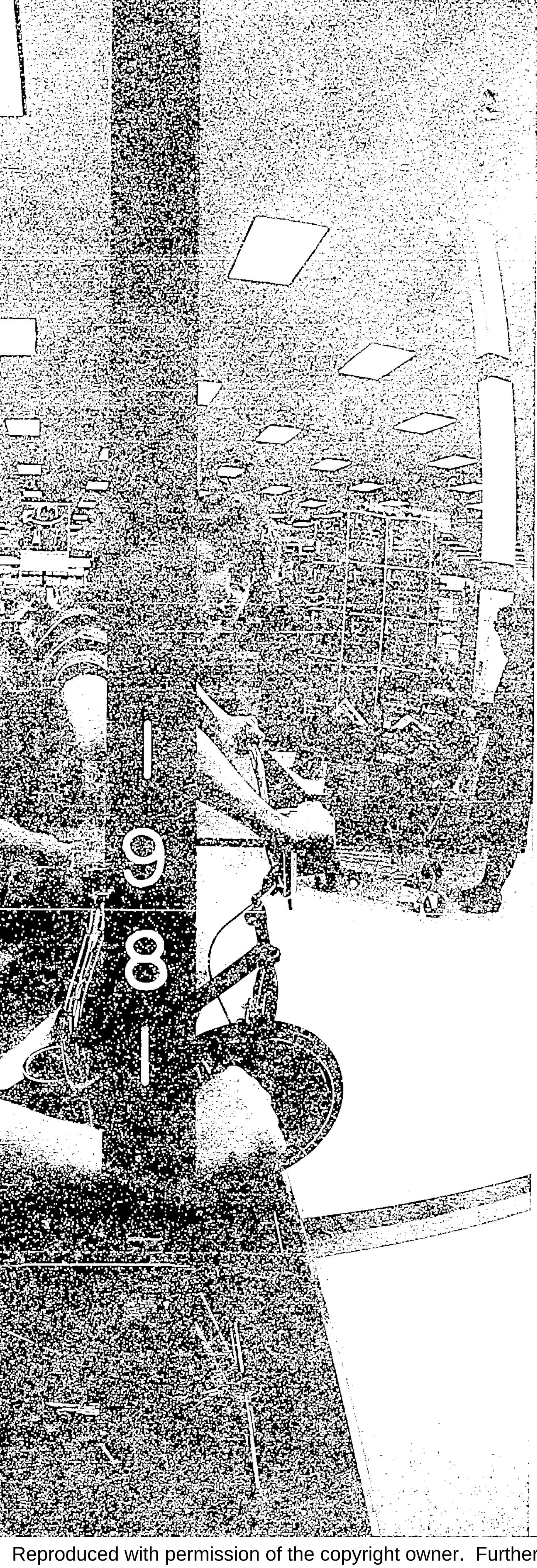
Expansion

Of the 14 Target stores opened in 1981, eight were located in new markets, including three stores in Nashville and two in Knoxville, Tennessee. Other new market entries were Waco, Texas; Racine, Wisconsin; and Lafayette, Louisiana, Target's first store in that state.

Six stores opened in the existing markets of Houston, Minneapolis, Denver, Memphis and Colorado Springs.

Target's 1982 expansion plans call for the addition of 16 stores. Eleven are scheduled for new markets, including Target's first stores in Arkansas, Wyoming and Montana. Other stores are planned for Houston, Denver, St. Paul and Dallas—all of which are current Target markets.

Target competes effectively as a trend merchandiser not only in fashion softlines, but also in hardlines such as physical fitness equipment



Target

By definition, Target's high-volume, low-margin formula places it squarely in the discount store segment of the retail industry. Target is most often described within the industry as an *upscale* discount store, a label that reflects its high-quality merchandise and clean, attractive stores, as well as the young, mobile, high-income customers it attracts.

These same customers, however, have a much broader view of Target. They see it as a shopping alternative to a number of retail formats, including department stores, mass merchandising chains, specialty stores and catalog stores, as well as traditional discounters. Above all, they see Target as a total value store—the best place to buy high-quality merchandise at low prices in surroundings that make shopping a pleasant experience.

At the heart of Target's value identity is its merchandise offering, a mix of two-thirds convenience-oriented hardlines and one-third mid-range fashion softlines. The emphasis is on basic merchandise—staple, everyday items that consumers use and need most. This foundation in basic goods is supplemented by an aggressive fashion strategy that enables Target to compete as a trend merchandiser in both hardlines and softlines.

Whether in basics or fashion, Target's merchandising efforts are guided by one all-important commitment—to provide its customers with the highest quality goods at low prices.

One way in which this commitment to merchandise quality is carried out is by emphasizing brand-name products with a national reputation for excellence—a strategy which distinguishes Target from many of its mass merchant and discount store competitors.

Merchandise offered by Target that does not carry a well-known brand, or that features Target's own label, is thoroughly tested before it is offered to the customer to make sure that it meets Target's high standards for quality.

Target's commitment to quality is backed by an unconditional guarantee on *all* merchandise, whether it is nationally branded or private-label goods.

Quality is also evident in Target's stores. High standards of housekeeping ensure that each store in the chain presents a clean and neat appearance at all times. Merchandise assortments are kept consistently well-stocked through the aid of a sophisticated, computerized inventory replenishment system. Wide aisles, clear department markings and signs, and computerized checkout procedures also provide for easy and convenient self-service shopping.

The Target value equation—quality merchandise at low prices—is completed by a pricing strategy that assures consistently low prices, not only on sale items but on everyday goods as well. At the same time, Target's formula of high volume, low margins and a low-expense self-service format allows for high return on investment.

Mervyn's

Mervyn's describes itself as a highly promotional, popular-priced, value-oriented department store. Taken separately, the components of this description are simple. Yet when they come together as Mervyn's, they form a merchandising strategy that has no equal in American retailing.

The merchandising commitment at Mervyn's is to provide customers with exceptional value through a combination of quality, price, fashion, timeliness and customer service.

From the very beginning, Mervyn's has operated with a balanced orientation—a strategy that allows Mervyn's to offer high-quality, fashion-right merchandise at the right price.

Mervyn's is able to project this balanced merchandising image through a unique mixture of nationally known brands and private-label goods.

Nationally branded items, which account for approximately 50% of the inventory, enable Mervyn's to be much more fashion-forward than many of its mass-merchandising competitors which carry only private brands. At the same time, national brands position Mervyn's to compete effectively against full-line, fashion-oriented department stores.

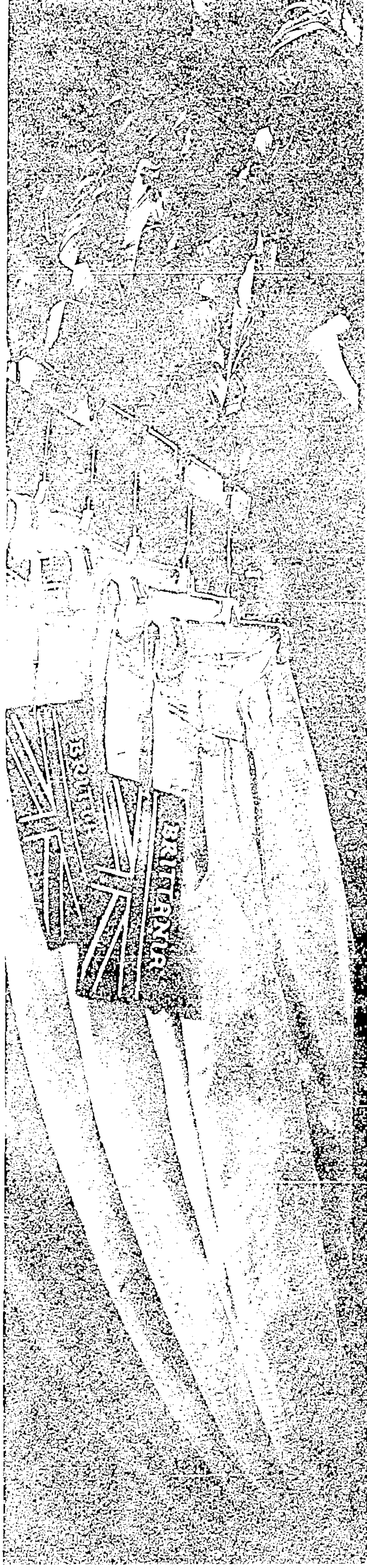
Mervyn's private-label merchandise accounts for approximately half of its total sales volume. These goods are continually tested to ensure that their quality is equal to or better than the quality of comparable merchandise found in the mass merchandising chains. Private-label merchandise is an important part of Mervyn's fashion program. It can also be priced and promoted very aggressively, giving customers quality merchandise at highly competitive prices.

Mervyn's has been so consistently successful that its basic merchandise mix remains virtually the same today as when the first store opened for business over 30 years ago. The emphasis is still on exceptional value in family softgoods—men's, women's and children's clothing, shoes and accessories, and linens, bedding, draperies and fabrics for the home.

The merchandise is presented to the consumer in pleasant, well-organized stores which have the look and feel of higher-priced department stores. Mervyn's stores are staffed by friendly salespeople trained to make shopping at Mervyn's an enjoyable, successful experience. The convenience of charge accounts (both Mervyn's own as well as bank card accounts), customer service counters throughout the store, alterations, gift wrap and layaway services are features found in all Mervyn's stores.

Mervyn's strives to have a dominant merchandise presentation in the classifications and fashion looks that its customers want today. "Narrow and deep" would best describe the goal of Mervyn's merchandise presentation. Chances are that customers will be able to find the sizes and colors they are looking for.

Nowhere is Mervyn's merchandising image more visible to the consumer than in its advertising tabloid, a newspaper insert which is the Company's primary promotional tool. Each week more than 5 million copies of the Mervyn's tabloid appear in about 95 newspapers, reaching an audience of over 10 million readers. The tabloid, which runs between 16 and 32 pages, spotlights promotions in every department and in every store throughout the entire chain.



(Millions)	1981	1980	1979
Revenues	$1,062.3	$826.9	$655.9
Operating Profit	$ 119.6	$ 76.3	$ 68.6
Stores	80	69	60
Retail Square Feet (000)	6,278	5,393	4,638

Financial Results

Mervyn's revenues increased 28% in 1981 to top the $1 billion mark. Sales were better than expected and market share showed improvement over 1980.

Operating profit increased 57% over 1980 on the strength of improvements in both the gross margin and expense rates, as well as sales.

Expansion

Eleven new stores opened in 1981, bringing Mervyn's total to 80 stores in eight states. Among them were Mervyn's first units in Washington (Vancouver) and Texas (El Paso). The balance of 1981 openings were in California and Utah.

Plans for 1982 anticipate the addition of 12 Mervyn's stores. With the exception of Tucson and Yuma, Arizona, and Amarillo, Texas, all 1982 openings will take place in California markets.

The two El Paso stores that opened in 1981 and the store planned for Amarillo in 1982 represent the first steps in a major expansion by Mervyn's into Texas. Mervyn's plans to open 35 new stores there within a three- to four-year period beginning in 1983. The majority of new stores are scheduled to open in Dallas, Fort Worth and Houston, with other multiple store openings planned for San Antonio and Austin.

Mervyn's commitment: exceptional value through quality, price, fashion, timeliness and customer service.

(Millions)	1981	1980	1979
Revenues			
Hudson's	$ 658.1	$ 641.5	$ 652.1
Dayton's	410.1	382.1	357.0
Diamonds	140.3	123.1	115.8
John A. Brown	77.0	57.2	48.9
Total	$1,285.5	$1,203.9	$1,173.8
Operating Profit	$ 89.9	$ 94.0	$ 103.0
Stores			
Hudson's	19	18	16
Dayton's	16	16	15
Diamonds	13	10	9
John A. Brown	6	6	5
Total	54	50	45
Retail Square Feet (000)			
Hudson's	5,134	5,832	5,563
Dayton's	3,362	3,149	3,047
Diamonds	1,644	1,242	1,112
John A. Brown	632	632	488
Total	10,772	10,855	10,210

Financial Results

Revenues from the department store group increased 7% in 1981. All companies reported higher revenues than in the previous year.

Department store operating profit contribution was down for the year. Earnings improved at Hudson's and John A. Brown, but declined at Dayton's and Diamonds.

Despite a continuation of unfavorable economic conditions in the Detroit area, Hudson's operating profit was up 1% from 1980 as a result of gross margin improvement and a 3% revenue increase. Dayton's reported a 4% decline in operating profit contribution for the year. Revenues increased 7% over last year.

John A. Brown posted an 83% increase in operating profit on a revenue increase of 35%. Sales were strong in both Tulsa and Oklahoma City.

Diamonds' operating profit declined sharply from a year ago. Although total revenues increased 14% in 1981, much of the increase resulted from new stores, with mature-store sales showing a decline for the year. In addition, Diamonds' gross margins declined due to heavy promotional activity in the very competitive Phoenix market.

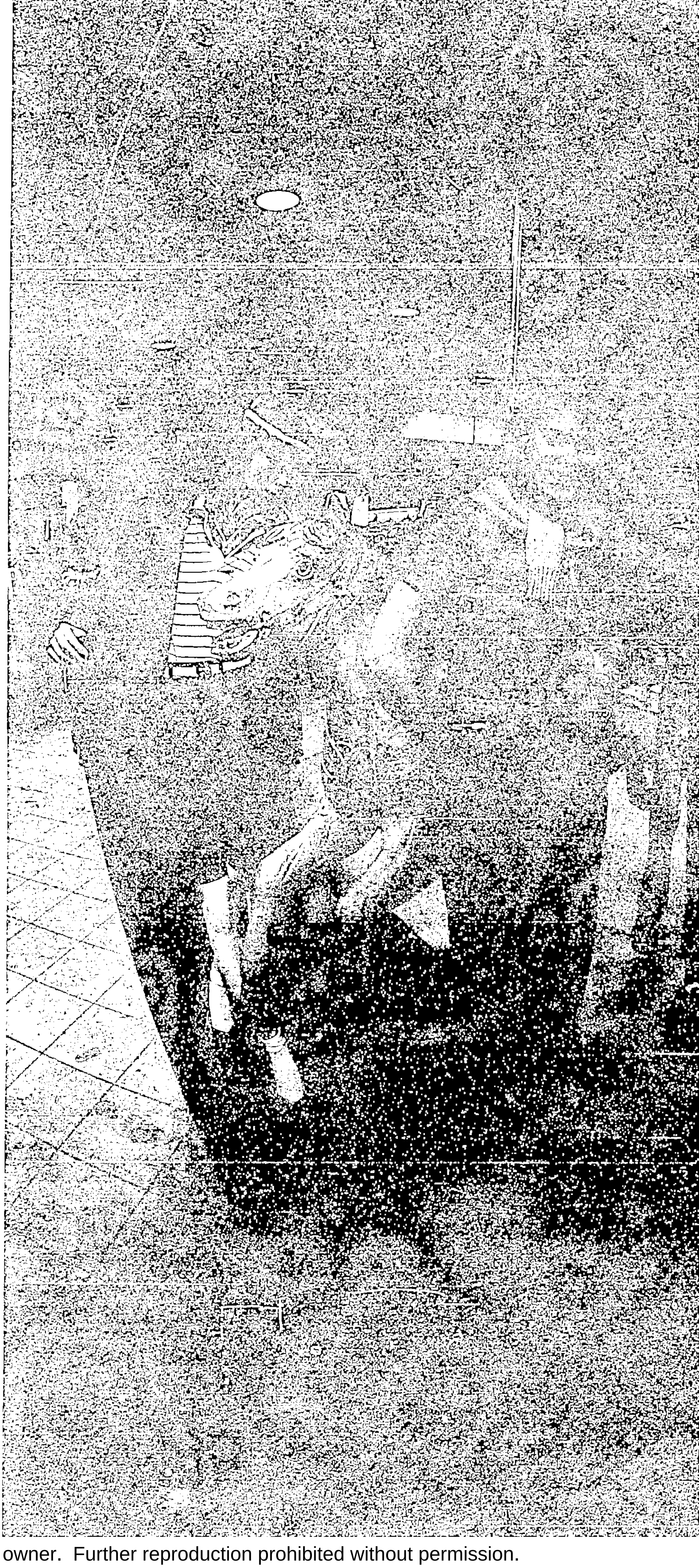
Expansion

The department store group grew to 54 stores in 10 states with the opening of four stores in 1981.

In July, Hudson's added its nineteenth store, a 122,000-square-foot unit in Fort Wayne, Indiana.

Diamonds opened three stores during the year, including a 128,000-square-foot store in Las Vegas, Nevada, its third in that market. Other openings were a 126,000-square-foot unit in Tucson, Diamonds' second store there, and a 125,000-square-foot store in Phoenix, its eighth in its home market.

The department store group will add one store in 1982. In July, Hudson's will open a 103,000-square-foot unit in Lansing, Michigan, its second store in that market.



Dayton Hudson's department stores respond to today's fashion-conscious consumers with style-right, quality merchandise and exciting and creative presentation

Department Stores

Retail merchandising thrives on changes in taste—and nowhere is taste more evident than in the department store business where the focus is on fashion.

The increase in working women, a higher level of affluence, a maturing population and greater emphasis on lifestyles have combined to spark a new interest in fashion among American consumers. In both career and leisure clothing, they are trading up from traditional apparel makers to higher-priced designer lines. Their fashion orientation extends beyond apparel, reaching into ego-intensive home goods, electronics and athletic gear as a reflection of individual lifestyles. At the same time, they are demanding quality merchandise that is both fashionable *and* long-lasting.

Department stores are in an excellent position to benefit from the heightened fashion and quality orientation of today's consumers. And among department stores, the four companies that make up Dayton Hudson's department store group are well-positioned to respond to the special needs of these consumers.

The group comprises four regional department store companies—Hudson's and Dayton's in the Midwest and Diamonds and John A. Brown in the Southwest. Fashion has been their business from the beginning, and they have long-established identities as style and quality leaders within their regional markets.

Today that focus on fashion continues to an even greater degree. Each company is refining its merchandising strategy to emphasize style-right, quality goods more aggressively in all merchandise categories and at all price levels.

Each company is also taking a closer look at its customers, classifying them by fashion tastes and activity orientation as well as by traditional price levels. The result is a three-dimensional customer profile which allows for precise merchandising to targeted customer segments.

This segmentation carries over into the stores, where merchandise departments are organized into collections of clearly defined specialty shops catering to specific customer segments.

Concept merchandising is a new marketing strategy that has evolved from the new emphasis on customer activities. By cross-merchandising hardlines and softlines together in specially designed shops, concept merchandising sells the customer an entire lifestyle image rather than individual items.

Dayton's "Boundary Waters" shop, for example, features authentic outdoor apparel for the entire family, as well as housewares, sporting goods and specialty foods. The result is a totally integrated merchandising strategy related to the active, outdoor way of life that is unique to the young, upscale Dayton's customer.

Merchandise presentation is also undergoing dramatic changes, featuring in-store displays that are more exciting and fashion-forward than ever before. Visual merchandising techniques are becoming more creative just as consumers are growing increasingly sophisticated and fashion-conscious.

Specialty Merchandisers

12

Dayton Hudson's specialty merchandisers, B. Dalton Bookseller and Lechmere, have built their businesses around one of retailing's most important strategic principles: knowing who your customers are and what they want.

Each company serves its own segment of the consumer market with a specialized merchandise offering tailored to meet the needs of that market. This precise focus enables them to respond quickly and effectively to their customers' special needs and desires.

B. Dalton has become the country's largest national bookstore chain by serving the book-buying needs of a large segment of the consumer population that is well-educated, affluent and leisure-oriented. To these customers, B. Dalton has achieved a reputation as a bookstore that has the books they want, when they want them.

The average B. Dalton store carries over 25,000 hardcover and paperback titles in more than 30 categories, including literature, sports, diet and health, travel, business, cooking and art. The selection includes not only the latest bestsellers, but also backlist titles (books which stay in print beyond the initial printing season) as well as value-priced remainders and publishers' overstocks.

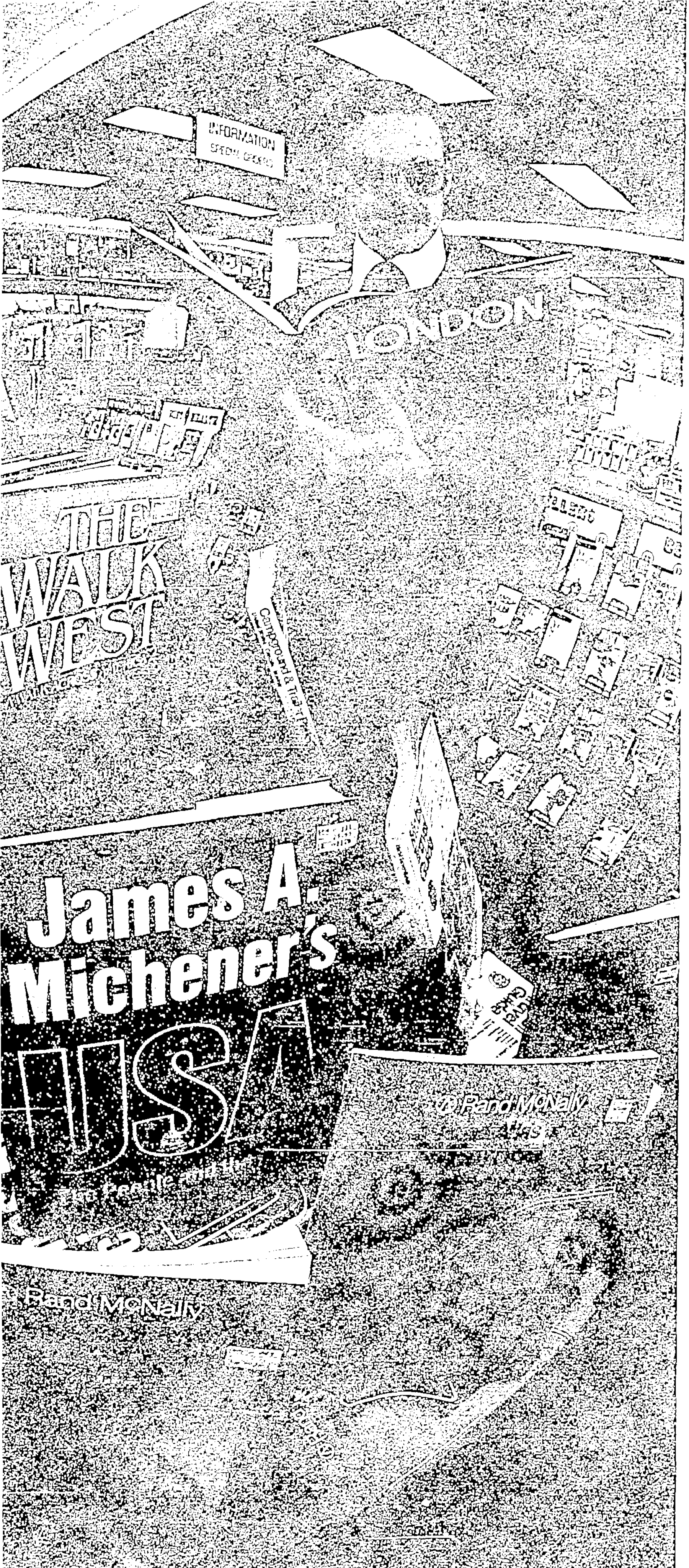
While many bookstores may carry a comparable array of categories, the B. Dalton difference lies in the assortments it offers within those categories. In the cookbook category, for example, B. Dalton's inventory includes over 2,000 separate titles, with the average store offering more than 600 at any one time. Besides general cookbooks, the assortment is further subdivided into specialized areas such as ethnic cooking, gourmet cooking, microwave cooking and specialty diets.

B. Dalton is able to focus precisely on the reading preferences of its customers with the aid of one of the most sophisticated information systems in retailing today. The system monitors sales on a daily basis by individual title and category in each store, allowing buyers to spot emerging trends quickly and then stock the appropriate titles to achieve maximum sales. It also enables B. Dalton to stock its stores according to regional preferences, an important marketing edge for a company with stores in 46 states.

During the past two years, Lechmere has undergone a major strategic realignment aimed at strengthening its reputation as a premier specialty hardgoods retailer in the New England area.

At the core of this realignment is a redefined merchandising strategy which narrows Lechmere's merchandise offering to four major hardgoods categories—consumer electronics, housewares and hardware, major kitchen and laundry appliances and leisure-time equipment. Market research indicated that these categories formed an existing base of merchandising strength for Lechmere.

Within these four categories, Lechmere offers the widest selection available in its markets. Its emphasis is on high-quality, brand-name merchandise, priced to appeal to the value needs of active, well-educated consumers.



(Millions)	1981	1980	1979
Revenues			
B. Dalton Bookseller	$319.3	$255.6	$209.9
Lechmere	164.8	162.7	176.9
Dayton Hudson Jewelers	56.7	52.7	47.8
Total	$540.8	$471.0	$434.6
Operating Profit	$ 36.4	$ 20.1	$ 23.6
Stores			
B. Dalton Bookseller	579	517	420
Lechmere	6	6	6
Dayton Hudson Jewelers	55	52	50
Total	640	575	476
Retail Square Feet (000)			
B. Dalton Bookseller	2,097	1,875	1,550
Lechmere	992	992	992
Dayton Hudson Jewelers	198	194	194
Total	3,287	3,061	2,736

Financial Results

Annual revenues from specialty merchandisers increased 15% in 1981. The group's operating profit contribution was up 81% over last year.

Strong sales growth, combined with improvements in gross margin and expenses, resulted in a 36% increase in operating profit for B. Dalton. Sales were better than expected throughout the year, increasing 25% over last year—the largest increase since 1978.

Lechmere reported improvements in both revenues and operating profit in 1981, as customers began to respond favorably to its reorganized merchandising programs. Revenues increased 1%, despite the absence of sales from some departments and activities dropped during the past two years. Operating profit increased sharply in 1981, following a loss in the previous year.

Dayton Hudson Jewelers had an 8% increase in revenues in 1981. Year-to-year deflation in the retail price of jewelry resulted in a credit from the last-in, first-out (LIFO) inventory accounting method rather than a charge. As a result, operating profit contribution from Dayton Hudson Jewelers increased in 1981. In January, an agreement was reached to sell Dayton Hudson Jewelers to Henry Birks & Sons Limited of Montreal.

Expansion

B. Dalton added 62 stores in 1981. Plans for 1982 anticipate the addition of approximately 110 stores.

In 1981, B. Dalton began a discount book strategy, which is operating as a separate division under the name of Pickwick Books. Three test stores ranging from 2,500 to 4,000 square feet are operating in Columbus, Ohio. Pickwick stores feature a selection of hardcover books, trade and mass market paperbacks, publishers' overstocks and remainders —all at discount prices.

Broad assortments within more than 30 subject categories assure B. Dalton's customers of finding the books they want, when they want them.

Americans today are being challenged to solve public problems with private initiatives—and to address their national agenda from a local perspective

At Dayton Hudson Corporation, we believe we are well-positioned to respond to these challenges. In 1981, anticipating the changing environment in which we operate and the public's growing expectations of business, we turned our attention to three priority areas. First, we modified the management of our government affairs and community giving programs. Second, we improved our capacity to confront emerging public issues and set priorities. Finally, we sharpened the focus of our community giving to heighten the future impact of our program.

An Internal Structure for External Effectiveness

We have long believed that service to the community is a key element in our business strategy. We have taken the initiative in addressing community problems not because government asked us to, but because we have learned that it enhances our long-term success

In 1981, we made several changes in our management structure to ensure external effectiveness. We formed the Management Committee on Corporate Responsibility, composed of senior corporate and operating company officers, to set policy and priorities for our government affairs and community giving programs

Our operating companies continued to become more professional in these areas. Each company now has trained personnel responsible for managing local governmental and contributions programs

The Corporate Responsibility Committee of the Board of Directors continued to play a key role in reviewing the effectiveness of these programs

Governmental Affairs: A New Consciousness

At Dayton Hudson, we recognize that we cannot exist in a vacuum. Tax laws, regulatory policies, trade and community development legislation affect our business just as surely as store locations and merchandise displays.

In 1981, we concentrated on integrating these issues into our business decision-making. We adopted an internal process to help management identify emerging public issues critical to our strategic objectives and to recommend solutions to them. We continued to identify and promote key legislative priorities at all levels.

Community Giving: Responding to Change

For 36 consecutive years, Dayton Hudson has committed an amount equal to 5% of its pre-tax profits to community giving. That commitment was reaffirmed in 1981. But growing community needs made it more clear than ever this year that it is not how much we give, but *how* we give that will make a difference.

As we watched public resources dwindle and inflation take its toll, we recognized that building self-sufficiency in people and institutions was of paramount importance.

In the area of social action—a primary focus for our giving—we shifted our priorities to programs that work to remove barriers for disadvantaged groups. Rather than short-term, temporary assistance, we supported long-term efforts to build individual self-sufficiency

In the arts, our second area of concentration, we rewarded the efforts of organizations to economize and become more self-sufficient. We maintained our priority support for major institutions, in an effort to fortify them for hard times ahead. We also made a significant investment in the support of individual creative artists

These modifications, applied to a long tradition of public service, assure that Dayton Hudson Corporation is ready to respond to today's challenges

Each year Dayton Hudson Corporation publishes a report on its community giving programs. A copy of the report for 1981 can be obtained by writing to the Public Affairs Department

Contents:

As we have discussed in past annual reports, we believe inflation is a major problem that will continue to be a key factor in our environment. Indeed, we believe that it is one of the most significant challenges confronting management today—one that requires a sound strategic and operational response.

Our strategic response to inflation is concentrated in the area of effective resource allocation. We continually assess this process to ensure that we are effectively offsetting the impact of inflation. We recognize the need to focus upon the real, or inflation-adjusted, return on investment from our business mix which will best position us for real growth over the long term. Accordingly, in the past, we have divested certain businesses and allocated the proceeds to Target, Mervyn's and B. Dalton, our three growth strategies.

Our operational response to inflation focuses upon productivity improvements. Establishing productivity improvement programs requires first a reporting system based upon real rather than historical performance. It also requires a process to ensure that all of our employees understand the implications of inflation.

Our use of strong financial policies and high standards based upon historical reporting has served us well in the past. However, we believe it is now critical that we adapt our reporting systems to reflect the full impact of inflation upon our business.

While our historical financial statements include inflation's impact upon sales, expense and cost of sales, they do not show its effect on our inventories and fixed assets (including leases).

Accordingly, we are implementing tandem reporting systems to provide us with more accurate assessments of our real performance. We believe this is a critical step in understanding the full impact of inflation so that we are assured of making the necessary decisions to support funding for our aggressive growth program.

We have also begun a corporate-wide communication and education program to help employees at all levels understand what our real performance is.

We believe this approach will help us to obtain the important productivity improvements in pricing, expense control and asset management that are necessary for our continued growth on a real basis.

There are no easy answers to this complex challenge. We are convinced, however, that the programs we are putting in place will result in successful long-term *real* growth for Dayton Hudson Corporation and will help us to deal with the difficult problems that inflation presents.

William A. Andres

William A. Andres
Chairman and Chief Executive Officer

Management's Inflation-Adjusted Information (Unaudited)

(Millions of Dollars, Except Per-Share Data)	1981	1980	1979	1978	1977
Revenues					
As reported	$4,943	$4,034	$3,385	$2,962	$2,495
Adjusted for inflation (BLS)*	$4,943	$4,252	$3,786	$3,491	$3,068
Earnings					
Pretax from continuing operations before inflation adjustments	$ 307	$ 283	$ 268		
Cost to maintain inventories (LIFO)	(19)	(33)	(27)		
Pretax as reported	288	250	241		
Cost to maintain store locations and other owned and leased facilities	(54)	(40)	(32)		
Income taxes as reported	(128)	(112)	(114)		
Net, adjusted for inflation (current cost)	106	98	95		
Dividends declared	(50)	(45)	(41)		
Retained after dividends	$ 56	$ 53	$ 54		
Earnings Per Share					
As reported	$ 3.33	$ 2.90	$ 2.67		
Cost to maintain store locations and other owned and leased facilities	(1.12)	(.84)	(.68)		
Adjusted for inflation (current cost)	2.21	2.06	1.99		
Dividends declared	(1.05)	(.95)	(.85)		
Retained for future growth	$ 1.16	$ 1.11	$ 1.14		
Ratios					
Inflation-adjusted earnings as a percent of historical	66%	71%	75%		
Dividends declared as a percent of prior year inflation-adjusted earnings	51%	48%			
Effective tax rates					
As reported	44.5%	44.8%	47.5%		
Adjusted for inflation (current cost)	54.7%	53.3%	54.7%		
Shareholders' equity (net assets)					
As reported	$1,193	$1,066	$ 963		
After adjusting assets to current cost, in 1981 purchasing power (CPI-U)**	$1,846	$1,753	$1,676		
Dividends declared per common share					
As reported	$ 1.05	$ .95	$ .85	$ .75	$ .65
In 1981 purchasing power (CPI-U)	$ 1.05	$ 1.05	$ 1.06	$ 1.04	$ .98
Market price of Common Stock at year-end					
As quoted	$28.88	$22.38	$23.00	$19.38	$18.75
In 1981 purchasing power (CPI-U)	$28.05	$23.55	$27.04	$25.95	$27.46
Inflation indices					
Average CPI-U (1967 = 100)	274.2	249.1	219.8	196.9	182.5
Average of BLS rate (1973 = 100)	149.9	142.2	134.0	127.2	121.9

*Bureau of Labor Statistics

**Consumer Price Index-Urban

Accounting for the Impact of Inflation (Unaudited)

(Thousands of Dollars, Except Per-Share Data)

Inflation affects our profit formulas and growth measures in several ways.

> The competitive nature of retailing restricts our ability to raise prices. Retail price increases have averaged only 4% to 7% during the past five years, while the wholesale price index for general merchandise has increased 6% to 12% during the same period.

> Expense inflation, as measured by the Consumer Price Index-Urban (CPI-U), has also risen faster than our retail prices, with rates of 6% to 13% over the past five years. Because operating expenses of retailers reflect the industry's labor-intensive nature, our historical financial statements reflect the general rate of inflation more fully than those of other industries.

> Like most retail companies, we use the last-in, first-out (LIFO) inventory accounting method for reporting purposes. Consequently, our historical financial statements already provide a cost to replace the capital invested in inventories each year in real terms. Our LIFO provisions have risen during the past several years, reflecting the rising cost of maintaining inventories.

To show how historical income measurement is affected by rapidly changing prices, accounting standards were issued by the Financial Accounting Standards Board in 1979. These standards, outlined in Statement of Financial Accounting Standards (SFAS) #33, require supplementary income calculations based on two methods: current cost accounting and constant dollar accounting. Each method adjusts only depreciation expense and cost of retail sales to arrive at inflation-adjusted net earnings. Revenues and all other operating expenses are adjusted only for changes in the value of the dollar as measured by the CPI-U. We have also adjusted our revenue information to 1981 dollars by using an average of the Bureau of Labor Statistics (BLS) index. We believe this index is more representative than the CPI-U of actual price changes in our business.

We consider the current-cost method superior to the constant-dollar method since it more accurately reflects the impact of inflation associated with our operations.

Our inflation-adjusted earnings include additional depreciation expense to reflect in real terms the cost of replacing our current store facilities. We have gone beyond the requirements of SFAS #33 by calculating this expense not only for capital leases, but for all operating leases as well.

We believe that our incremental cost of maintaining capital invested in operating facilities is less than that of other industries due to the retail business being less capital intensive, together with the newness of our Target, Mervyn's and B. Dalton strategies.

We are encouraged, as well as challenged, by the results of the adjustments for inflation.

> When we adjust our reported five-year revenue growth rate of 18% by the BLS index, our growth, excluding inflation's impact, is 12%—clearly a strong record.

> After adjusting our net earnings for the additional cost of maintaining owned and leased facilities, we continue to retain profits in our business on a real basis. We have done so for each year the data is calculated.

> Our dividend payout ratio also indicates that on a real basis we are returning earnings to our shareholders rather than capital.

> Our 1981 retained net earnings as a percent of inflation-adjusted equity (3%) continues to show real growth in equity.

> Shareholders' equity, when adjusted for the current cost of our inventories and owned and capitalized leased assets, increases to $1.9 billion, compared with $1.2 billion as shown in our financial statements on page 27. This adjustment more accurately reflects the worth of our investment.

Current Cost

Return on Investment

	1981	1980
Net earnings before cost to maintain inventories	$ 169,967	$ 156,279
Cost to maintain inventories (LIFO)	(10,467)	(18,037)
Net earnings as reported	159,500	138,242
Cost (additional depreciation) to maintain assets		
Owned assets	(43,309)	(33,692)
Leased assets		
Capital	(2,270)	(970)
Operating	(7,864)	(5,326)
Net earnings, current cost	106,057	98,254
Interest expense—after tax	13,400	5,300
Interest equivalent in leases	19,600	14,700
Net earnings from continuing operations, current cost, before financing costs	$ 139,057	$ 118,254
Working capital	$ 553,546	$ 548,674
Net property and equipment	1,303,880	968,297
Non-current assets of discontinued operations (net)	36,594	22,203
Other assets	5,568	4,058
Capital leases	137,231	94,160
Operating leases	356,979	313,547
Total investment at beginning of year, current cost	$2,393,798	$1,950,939
Return on investment	5.8%	6.1%

Our current-cost earnings in 1981 purchasing power (CPI-U) are:

	1981	1980	1979
Net earnings—continuing operations	$106,057	$108,154	$118,063
Earnings per share	$ 2.21	$ 2.27	$ 2.49

Shareholders' Equity and Capitalization

The value of shareholders' equity stated on a current-cost basis is higher than that shown in our financial statements on page 27, as a result of inflation's impact on our inventories and net property and equipment. Total capitalization also increases due to inflation's impact on our operating leases

	1981	1980	1979
Shareholders' equity as reported	$1,192,681	$1,066,368	$ 962,611
Current-cost adjustment for inventory	135,921	130,163	97,506
Current-cost adjustment for owned and capitalized leased assets	572,023	468,566	365,463
Shareholders' equity, current cost	1,900,625	1,665,097	1,425,580
Current-cost adjustment for operating leases	160,374	101,240	86,421
Capitalized value of operating leases	286,366	255,739	227,126
Long-term debt, notes payable, deferred items and capital leases	571,431	371,722	211,812
Total capitalization, current cost	$2,918,796	$2,393,798	$1,950,939

Current-cost inventories increase because historical figures are based on the LIFO inventory method The LIFO method understates the current value of the inventory on the balance sheet because the LIFO provisions have accumulated over the years as prices have risen

Inventory was adjusted by adding back the cumulative LIFO provision to reflect the current cost of replacing the items

Adjustments for Inventories

	LIFO Inventory	Accumulated LIFO Provision	FIFO Inventory
1981			
Target	$288,524	$ 36,568	$325,092
Mervyn's	147,100	21,835	168,935
Department stores	139,576	56,748	196,324
Specialty merchandisers	87,874	20,770	108,644
Total	$663,074	$135,921	$798,995
1980			
Target	$203,172	$ 32,966	$236,138
Mervyn's	115,409	15,664	131,073
Department stores	126,412	50,822	177,234
Specialty merchandisers	98,808	30,711	129,519
Total	$543,801	$130,163	$673,964

Net property and equipment values are also higher because the costs to replace them are greater today than when they were first purchased. Current costs of property and equipment were determined using indices based on annual changes in the cost of constructing or purchasing new assets.

Adjustments for Owned and Leased Assets

	1981	1980
Target	$220,304	$159,018
Mervyn's	91,442	61,727
Department stores	315,532	286,885
Specialty merchandisers	83,816	49,571
Corporate	21,303	12,605
Total	$732,397	$569,806

Constant Dollar

The constant dollar method of determining the impact of inflation uses the CPI-U as an index of rising values for inventory and owned and leased facilities. As previously explained, we do not believe this is a relevant index for our business. The following data show how application of the CPI-U would affect our results.

(In Average 1981 Dollars)	1981	1980	1979
Shareholders' equity (net assets)	$1,710,434	$1,636,133	$1,585,495
Net earnings	$ 73,845	$ 79,206	$ 84,477
Earnings per share	$ 1.54	$ 1.66	$ 1.78

Constant dollar adjustments to reported 1981 net earnings consist of $41,612 in additional depreciation expense on owned and leased property and equipment and $44,043 in additional cost of goods sold

Revenues adjusted for the effect of inflation as measured by the CPI-U are as follows

Revenues (1981 Dollars)

(Millions of Dollars)	1981	1980	1979	1978	1977
As reported	$4,943	$4,034	$3,385	$2,962	$2,495
As adjusted (CPI-U)	$4,943	$4,440	$4,223	$4,125	$3,748

Holding and Monetary Gains

Holding gains occur when the worth of our assets as measured by the current cost method rises faster than the loss of purchasing power in the dollars needed to replace them, as measured by the CPI-U.

In 1981, the current cost of our inventory increased $18,860 and our property and equipment, including all leased assets, increased $221,861 due to the rise in specific prices. General inflation accounted for $212,661 of this increase, resulting in a holding gain of $28,060.

Monetary assets, such as accounts receivable, lose purchasing power during an inflationary period because the dollars they represent purchase fewer goods and services upon realization Monetary liabilities gain because less purchasing power is required to pay off the obligations

Neither holding nor monetary gains are included in inflation-adjusted earnings.

(In average 1981 dollars)	1981	1980	1979
Holding gains (loss) net of general inflation	$28,060	$(26,382)	$(150,865)
Net monetary gains	$40,194	$ 37,851	$ 29,407

The inflation-adjusted data represent reasonable approximations of the price changes in our business during the periods under review. They do not represent specific measurements of the assets and expenses involved

No adjustments to income tax expense were made in computing the inflation-adjusted information, in accordance with current accounting requirements (SFAS #33) As a result, the effective tax rate for 1981 increased from 44.5% on a historical basis to 54 7% on an inflation-adjusted basis.

The following discussion of our financial objectives, policies and capital expenditures relates to our continuing retail operations. All financial comparisons below are based on earnings from continuing retail operations and on consolidated balance sheets. Earnings from our discontinued real estate business have been excluded.

Financial Objectives

Our financial goal is to provide our shareholders with a superior return on their investment while maintaining a conservative financial position. We believe that we can achieve this goal while growing at a rate that is among the highest in our industry.

To provide a framework for decision making, we have established three financial objectives and several financial policies. Our financial objectives are:

> To earn an after-tax return on beginning shareholders' equity (ROE) of at least 16%.

> To sustain an annual growth in earnings per share (EPS) of at least 15%.

> To maintain a strong rating of our senior debt.

In 1981, we fell short of achieving our ROE objective. Return on beginning shareholders' equity was 15%, an increase from 14.4% in 1980. Earnings per share from continuing retail operations increased 15%, compared with 9% a year ago. Our senior debt continues to carry AA and Aa ratings from Standard and Poor's and Moody's, respectively—both strong investment grade ratings.

Return on Investment

The key factor underlying each of our financial objectives is return on investment (ROI). We believe that ROI is the most important single measure of financial performance, and it is the primary financial tool we use to manage our business.

ROI is defined as the product of investment turnover and return on sales.

$$\text{ROI} = \frac{\text{Sales}}{\text{Investment}} \times \frac{\text{Earnings}}{\text{Sales}}$$

For this equation, we use an earnings figure which reflects the profitability of our assets before any financing costs. Investment is the sum of working capital and non-current assets, including the present value of all leases (capital *and* operating).

After-tax ROI from continuing operations was 11.6% in 1981, compared with 11.5% in 1980. In 1981, we achieved somewhat higher sales per dollar of investment but our profit margin was slightly lower than in 1980.

	ROI	=	Investment Turnover	×	Return on Sales
1981	11.6%	=	2.98	×	3.89%
1980	11.5%	=	2.93	×	3.92%

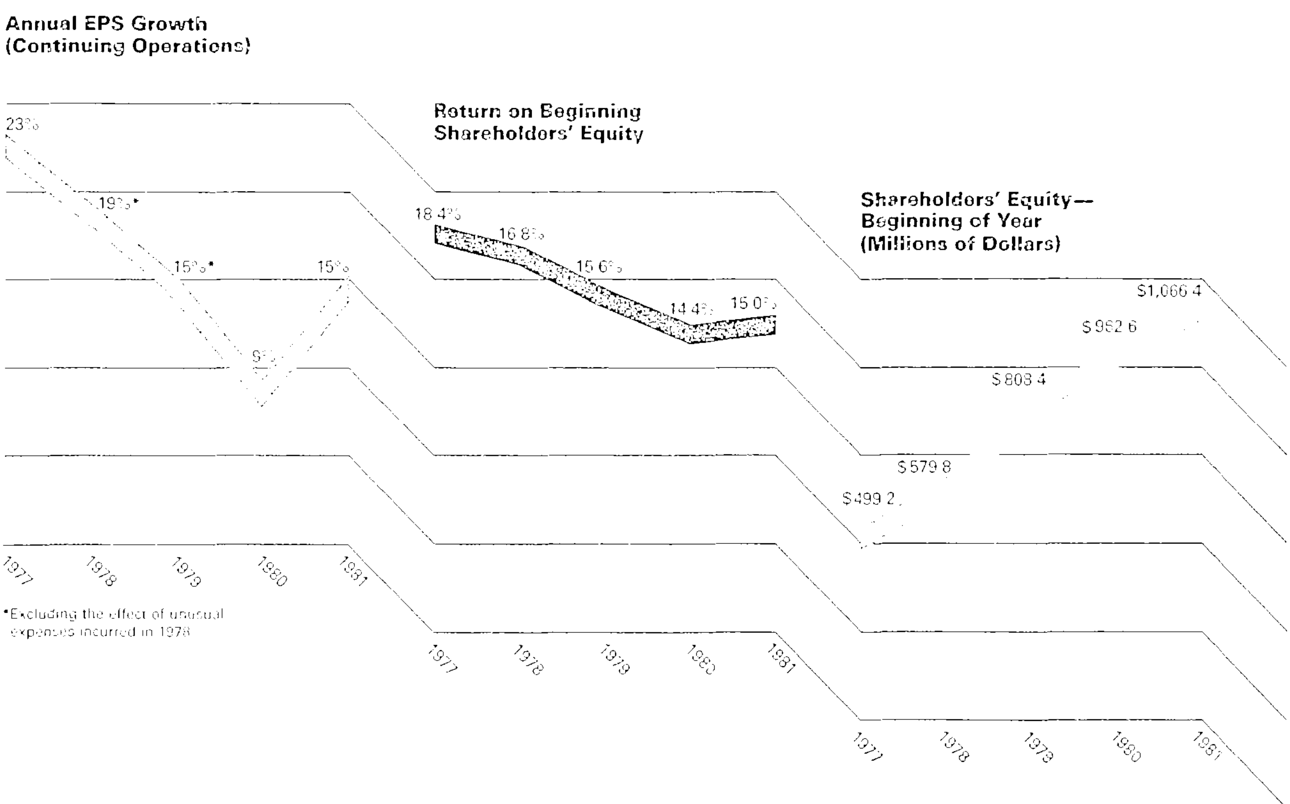
The following table shows the calculation of ROI for 1981 and 1980.

	(Millions of Dollars) 1981	1980
Net earnings from continuing operations	**$ 159.5**	$ 138.2
Interest expense—after tax (a)	**13.4**	5.3
Interest equivalent in leases—after tax (b)	**19.6**	14.7
Earnings from continuing operations before financing costs	**$ 192.5**	$ 158.2
Working capital (c)	**$ 423.4**	$ 451.2
Net property and equipment	**872.2**	629.8
Non-current assets of discontinued operations (net)	**36.6**	22.2
Other assets	**5.6**	4.0
Capital leases	**100.3**	67.2
Present value of operating leases	**218.5**	187.9
Total investment at beginning of year	**$1,656.6**	$1,362.3
Return on investment	**11.6%**	11.5%

(a) Interest expense on debt existing at the beginning of the year.

(b) Determined using an after-tax interest rate of 6% in 1981 and 5.5% in 1980 on beginning of year capital leases and the present value of operating leases.

(c) Current assets less non-interest bearing current liabilities.



Our future success in achieving our objectives will depend substantially upon our continued effective application of the ROI tool in the following management processes.

Performance Appraisal. Corporate management and the management of each operating company is evaluated and compensated based on return on investment, as well as upon growth in earnings.

Capital Allocation. We allocate capital for expansion based on each operating company's past and projected performance measured against its ROI standard. Additional criteria for allocating capital include the quality of the company's strategic plan, strength of the management team and systems, and development of market position.

Capital Project Evaluation. All capital projects (including acquisitions) must meet corporate-wide internal rate of return and ROI standards. Capital projects must achieve a 14% ROI by the fifth full year of operation and an internal rate of return over their life of 13%. Audits of results in the years following completion determine whether project performance has met our standards.

Financial Policies

Consistent with our objective of maintaining a strong rating of our senior debt, we have established a maximum consolidated debt ratio, including capital leases and the present value of operating leases, of 45% of total capitalization.

Our consolidated debt ratio increased to 39% in 1981 from 35% in 1980 and 29% in 1979.

Capitalization	(Millions of Dollars) 1981	1980	1979
Notes payable	$ 98.6	$ 28.5	$ —
Long-term debt (including current portion)	337.4	221.7	123.8
Capital leases (including current portion)	101.6	109.0	79.1
Present value of operating leases	235.4	218.5	187.9
Total debt and equivalent	773.0	577.7	390.8
Deferred items	33.8	12.5	8.9
Equity	1,192.7	1,066.4	962.6
Total capitalization	$1,999.5	$1,656.6	$1,362.3
Debt ratio (total debt and equivalent as a percentage of total capitalization)	39%	35%	29%

On November 16, 1981, we issued $100 million of 15¼% Notes due 1991. We issued $100 million of 10⅞% Sinking Fund Debentures due 2005 on May 15, 1980. The proceeds of both issues were used to fund our capital expenditure program.

Our long-term debt is rated AA and Aa by Standard and Poor's and Moody's, respectively. Our commercial paper is rated A-1 by Standard and Poor's and P-1 by Moody's.

The greater part of our growth has been financed with internally generated funds and we expect that pattern to continue. In those cases where we must seek debt funding to finance growth, it is our plan to issue securities with fixed interest rates and with maturities that will, in the aggregate, match the economic life of our assets. Commercial paper is used almost exclusively to fund our seasonal working capital requirements.

Because of the lead times required for planning and construction of retail stores, we make commitments for some of our capital projects in advance of the time when the capital expenditures are made. Our financial policies place limits on the amounts of such forward commitments which can be accumulated for future years. It is our intention that these commitments for future expenditures not exceed levels which could be funded by internally generated funds.

In support of our goal of providing our shareholders with a superior return on their investment, it is our policy to make regular annual increases in dividends per share of Common Stock.

Over the past five years, our increasing dividends, combined with the market appreciation on our Common Stock, have yielded a 13.9% average annual return for our shareholders.

Dividends declared in 1981 on our Common Stock totaled $1.05 per share, an 11% increase over the $.95 per share declared in 1980. The quarterly dividend was increased to $.27½ per share for the dividend declared on October 14, 1981. The current annualized rate is $1.10 per share. All dividends have been adjusted to reflect the two-for-one stock split.

Fiscal Quarter	Quarterly Dividend Declared Per Share 1981	1980
First	$ .25	$ .22½
Second	.25	.22½
Third	.27½	.25
Fourth	.27½	.25
Year	$1.05	$ .95

Common Stock Price

Dayton Hudson Corporation Common Stock is listed on the New York Stock Exchange and the Pacific Stock Exchange with the symbol DH, and abbreviated in newspaper listings as DayHd. At year-end, the number of Dayton Hudson shareholders of record was 11,736, compared with 11,815 at year-end 1980. On April 7, 1982, there were 11,860 shareholders of record.

	Common Stock Price Range			
Fiscal	1981		1980	
Quarter	High	Low	High	Low
First	$ 31⅜	$ 21¼	$ 24⅞	$ 18¾
Second	31	26⅜	25	19
Third	30	26½	27½	20⅞
Fourth	30	25⅞	24½	20
Year	$ 31⅜	$ 21¼	$ 27½	$ 18¾

Capital Investment

Capital expenditures during 1981 were concentrated in Target, Mervyn's and B. Dalton. Capital investment in retail operations, including the present value of all new capital and operating leases, totaled $300 million in 1981.

	(Millions of Dollars) 1981	1980	1979
Capital expenditures	$254	$265	$211
Present value of new leases	46	35	36
Total	$300	$300	$247

In 1982, capital investment, including all leases, is expected to total approximately $350 million. For the 1982-86 period, current plans anticipate capital investment of approximately $2.2 billion.

Analysis of Operations

(Thousands of Dollars, Except Per-Share Data)

Economic conditions played a major role in our 1981 operating results. Continued inflation and a recession in the second half of the year created a highly promotional, competitive environment for retailers. The following table is a summary of our changes in earnings from 1978 to 1981.

	1981	1980	1979	1978
Earnings per share—continuing	**$3.33**	$2.90	$2.67	$2.06
Earnings per share—discontinued	**.29**	.18	1.38	3.55
Consolidated earnings per share	**$3.62**	$3.08	$4.05	$5.61

Variance analysis Continuing retail operations	**1981 vs. 1980**	1980 vs. 1979	1979 vs. 1978
Prior year's earnings per share	**$2.90**	$2.67	$2.06
Change in earnings per share due to			
Revenues	**.74**	.54	.39
Gross margin rate	**.14**	(.26)	(.17)
Operating expense rate	**(.02)**	(.12)	(.07)
Start-up expense	**(.05)**	(.05)	.02
Corporate expense	**(.03)**	.05	(.03)
Interest expense	**(.30)**	(.05)	.01
Interest income	**(.06)**	(.03)	.09
Income tax rate	**.02**	.14	.12
Unusual expenses	**—**	—	.26
Other factors	**(.01)**	.01	(.01)
Earnings per share	**$3.33**	$2.90	$2.67

Revenues

Our total revenues increased at a record rate, reflecting in part the growth in the number of stores we operate. Comparable store revenues (from stores open at least 12 months) were up 9% in 1981, exceeding the percentage increases of 1980 and 1979.

We compare our comparable-store revenue growth to the inflation rate to determine whether our growth is real. In 1981, our 9% growth exceeded the inflation rate. This was not the case in 1980. The Department Stores Inventory Price Index published by the Bureau of Labor Statistics (BLS) is our benchmark for measuring inflation's impact on revenues. The inflation rate in 1981 as measured by the BLS was 4.7%, a decline from 6.3% in 1980 and 5.8% in 1979.

Revenue Increase (Decrease)

	1981		1980		1979	
	All Stores	**Comparable Stores**	All Stores	Comparable Stores	All Stores	Comparable Stores
Target	**34%**	**11%**	37%	8%	25%	9%
Mervyn's	**28**	**16**	26	13	37	20
Department stores	**7**	**3**	3	(1)	—	2
Specialty merchandisers	**15**	**7**	8	1	6	8
Total	**23%**	**9%**	19%	5%	14%	8%

Credit sales continued to contribute significantly to our revenues. Credit sales grew 23% in 1981, compared with 9% in 1980 and 13% in 1979. We have widened the use of bank cards in our credit operations with their adoption this year by Lechmere and John A. Brown. Bank card sales produced 24% of credit sales in 1981, and 21% in 1980 and 1979. Our 1981 finance-charge revenue increased 23% on sales of $1,798,105. This compares with increases of 14% in 1980 and 15% in 1979. The provision for bad debts on retail credit sales decreased after two consecutive years of increases, reflecting improved credit management. The percentage decline in 1981 was 20%, compared with increases of 36% in 1980 and 32% in 1979.

One measure we use to evaluate the productivity of our stores is revenues per square foot. All four of our business segments reported increased revenues per square foot in 1981, led by Mervyn's.

Revenues Per Square Foot (Unaudited)*

(Dollars)	**1981**	1980	1979
Target	**$147**	$143	$148
Mervyn's	**182**	165	154
Department stores	**119**	114	115
Specialty merchandisers	**170**	163	166

*Average of beginning and end of year square feet

Cost of Sales

Due to the lower rate of inflation, our gross margin rate improved in 1981. For the first time in three years, our rate of increase in cost of sales did not exceed the growth rate of our retail revenues. Our gross margin rate is the function of three primary factors:

> *Inflation rate*—The easing of inflation in 1981 had a positive impact on our gross-margin rate. We reflect inflation's impact on our cost of sales by using the last-in, first-out (LIFO) method of inventory valuation. We believe LIFO provides a better matching of current costs with current revenues and gives a better gross margin measure in an inflationary economy than does the alternative method, first-in, first-out (FIFO). Supplemental LIFO information is presented in this report to facilitate comparison with companies using the FIFO method.

> *Revenue mix by business segment*—Target, a low-margin strategy, is contributing an increasing percentage of our revenues, while the share of the higher-margin department stores is decreasing. The continuing increase in Target's proportionate contribution has a downward impact on our consolidated gross margin rate.

> *Promotional environment*—The past year was once again one of significant promotional and seasonal markdowns. Our markdown rate continued the upward trend of recent years. Markdowns were particularly prevalent during the fourth quarter as we attempted to improve our inventory position.

Operating Expenses

Our operating expenses amounted to 28.5% of sales, which is consistent with the prior two years. The largest component of our operating expenses is selling, publicity and administrative costs. Other components are rent, depreciation, and taxes other than income taxes. We have been able to maintain our operating expenses at a consistent percent of sales despite inflation for two reasons:

> Our low-margin operations tend to have lower operating expenses per dollar of sales.

> We have instituted specific productivity programs to make our operations more efficient.

Start-up Expense (Unaudited)

	1981	1980	1979
Target	**$12,600**	$10,200	$ 5,600
Mervyn's	**4,100**	3,300	3,100
Department stores	**4,100**	3,700	3,600
Specialty merchandisers	**2,000**	1,600	2,300
Total	**22,800**	18,800	14,600

Start-up expenses include various personnel costs, taxes incurred during construction, and other construction-related expenses not capitalized. These costs increased sharply in 1980 due to a record number of store openings. Although we opened fewer new stores in 1981, we had higher start-up costs due in part to the remodeling of 40 Ayr-Way stores acquired in 1980.

Corporate Expense
Our corporate expenses increased $2.4 million in 1981 after a drop of $4.4 million in 1980 and an increase of $3.2 million in 1979. The 1981 increase is due principally to higher charitable contribution expenses in 1981 and to a gain in 1980 from the early repurchase of debentures, which offset expenses.

Interest Expense
For the second consecutive year, interest expense was a significant factor in our earnings. Interest expense increased $26 million in 1981, compared with a $4.1 million increase in 1980 and a $.8 million decline in 1979. The increases are due to both higher interest rates and the planned increase in external financing to support continuing retail expansion. In accordance with our financing plan, we completed a $100 million public offering of 10-year notes in the fourth quarter of 1981 and a $100 million offering of 25-year sinking fund debentures in the second quarter of 1980.

Interest Income
Interest income has continued to decline from its high of $10 million in 1979, reflecting the use of previously invested proceeds from shopping center sales for retail expansion.

Income Tax Rate
Our effective income tax rate for retail operations declined to 44.5% from 44.8% in 1980 and 47.5% in 1979. The improved tax rate reflects increased investment tax credit. Our effective tax rates for 1981, 1980 and 1979 vary from the 46% Federal statutory rate as follows.

	1981	1980	1979
(Percent of Earnings Before Income Taxes)			
Statutory rate	**46.0%**	46.0%	46.0%
State income taxes, net of Federal tax benefit	**4.0**	4.2	4.5
Investment tax credit*	**(4.8)**	(5.0)	(3.1)
Other	**(.7)**	(.4)	.1
Effective tax rate	**44.5%**	44.8%	47.5%

*Investment tax credits were $13,859 in 1981, $12,615 in 1980, and $7,534 in 1979.

The components of the provision for income taxes for the last three years are.

	1981	1980	1979
Current			
Federal	**$ 82,158**	$ 76,497	$ 84,388
State	**16,355**	15,817	18,349
	98,513	92,314	102,737
Deferred			
Federal	**26,722**	17,882	10,451
State	**2,772**	1,846	1,017
	29,494	19,728	11,468
Total	**$128,007**	$112,042	$114,205

We provide deferred income taxes for income and expenses which are recognized in different years for financial and tax reporting. The timing differences comprising our deferred tax provision are.

	1981	1980	1979
Excess of tax over book depreciation	**$18,360**	$ 9,562	$ 5,870
Deferred income on installment sales	**15,170**	6,155	10,253
Capitalized interest	**2,805**	4,069	—
Repurchase of debentures	**—**	1,418	—
Writedown of assets	**(8,767)**	(621)	(2,697)
Lease capitalization	**(322)**	(744)	(755)
Other	**2,743**	(111)	(1,203)
Provision for deferred taxes	**$29,494**	$19,728	$11,468

Significant Events

> ***Sale of Dayton Hudson Jewelers***

Effective January 30, 1982, we sold all of the assets of Dayton Hudson Jewelers for cash and the assumption of certain liabilities. The sale resulted in a slight gain in the fourth quarter. The company was one of three in our specialty merchandisers segment. Our 1981 Consolidated Results of Operations include $56,646 in revenues and $2,620 in operating profit from Dayton Hudson Jewelers.

> ***Acquisition***

On October 10, 1980, we purchased all of the capital stock and certain related assets of Ayr-Way Stores Corporation for cash and the assumption of certain indebtedness. The chain of 40 stores is now a separate operating region of Target. Our Consolidated Results of Operations include Ayr-Way's operating results since September 7, 1980, the effective date of the acquisition.

> ***Common Stock Split***

On October 14, 1981, the Board of Directors authorized a two-for-one stock split effected in the form of a 100% stock dividend payable November 30, 1981, to shareholders of record November 6, 1981. The par value of the stock dividend was transferred from the Additional Paid-In Capital account to the Common Stock account effective November 30, 1981. All earnings per share, dividends per share and average common shares outstanding presented in this report reflect the stock split.

> ***Discontinued Operations***

In 1978, we announced plans to dispose of our real estate business. Since that time, most of our real estate assets have been sold. The only assets remaining to be sold are interests in three developed shopping centers and in various undeveloped land parcels.

Our 1981 results include a net gain of $13,860 from the sale of interests in four regional shopping center projects.

In 1979, we recognized a net gain of $51,142 from the sale of two shopping centers and our interests in four joint ventures, as well as $16,740 from the 1978 sale of nine shopping centers. The 1978 sale provided an additional gain of $3,963 in 1980. Further small gains may be recognized on some of these sales if the properties' performance exceeds predetermined standards.

Quarterly Results (Unaudited)

The unaudited quarterly financial data furnished below was prepared using the same accounting policies we apply to our annual data. In addition, some of our accounting policies apply only to our quarterly data. The most significant of these are:

> We expense costs of opening new stores evenly throughout the year the store opens.

> We record real estate taxes, bonuses, contributions, professional fees and pension plan expense evenly throughout each year, based on the anticipated annual amounts.

> We incur additional rental expense on most of our leased stores if the stores' annual sales exceed certain stipulated amounts. We estimate and record this additional rent each month based on actual monthly sales.

> We allocate our estimated annual LIFO expense to our quarters based on historical experience of quarterly sales. The fourth quarter of each year includes an adjustment to reflect the actual effect of inflation on retail inventories as determined by the Bureau of Labor Statistics annual index. This year, the actual inflation rate was significantly below the rate used in our quarterly estimates. The allocation of our actual annual 1981 LIFO expense would have increased retail earnings per share by $.05, $.05 and $.03 for the first, second and third quarters, respectively, while reducing fourth-quarter earnings per share by $.13. The lower 1981 inflation rate decreased the LIFO provision by $.16 per share from last year. The table below shows the reported LIFO impact on quarterly earnings per share.

Quarter	1981	1980
First	$.09	$.07
Second	.10	.09
Third	.08	.12
Fourth	(.05)	.10
Total Year	$.22	$.38

> We use our anticipated effective annual tax rate to compute income taxes on our quarterly earnings. Income taxes relating to significant gains from property sales are computed separately.

Our sales growth was strong through the first two quarters and moderated in the last half as the economy entered a recession. After the effect of our actual annual 1981 LIFO expense, the gross margin rates were better than last year in all quarters but the fourth. The significant increase in interest expense reduced earnings growth in all four quarters of 1981.

Business Segment Trends

The business segment comparisons on the next page illustrate the changing nature of our operations, reflecting prior strategic decisions. Our four business segments, Target, Mervyn's, department stores and specialty merchandisers, are reviewed in more detail on pages 6-13.

For the second consecutive year, Target was the largest revenue contributor. Mervyn's, with a 32% compound annual growth rate over the past five years, was our revenue growth leader.

Our total compound annual growth rate in revenues over the last five years is 18%. Target's growth rate is 27% and specialty merchandisers' is 13%. Department stores, which rank second in total revenues, have a compound growth rate of 6%.

The changes in revenue contributions by business segment are consistent with our expansion plans, which concentrate on Target, Mervyn's and B. Dalton Bookseller. Target has grown from 29% of total revenues in 1976 to 42% in 1981. Mervyn's contributed 13% in 1976 and 21% in 1981. Conversely, the department store group has declined from 45% in 1976 to 26% in 1981.

Total operating profit increased 26% in 1981, our strongest improvement in the past five years. Our five-year compound annual operating profit growth rate was 15%.

The contributions to operating profit by our business segments also reflect our growth strategy. In 1981, Mervyn's surpassed department stores and Target as our leading contributor to operating profit with 34% of the total. Mervyn's share of total operating profit was 13% in 1976. Target's 31% share in 1981 placed it ahead of the 25% contributed by department stores. Target's contribution in 1976 was 23%, while department stores' was 53%.

Operating profit includes all revenues and expenses except corporate expenses, interest, unusual expenses and income taxes.

(Millions of Dollars, Except Per-Share Data)	First Quarter		Second Quarter		Third Quarter		Fourth Quarter		Total Year	
	1981	1980	**1981**	1980	**1981**	1980	**1981**	1980	**1981**	1980
Revenues	**$976.5**	$756.6	**$1,096.8**	$854.6	**$1,195.2**	$993.4	**$1,674.4**	$1,428.9	**$4,942.9**	$4,033.5
Gross profit*	**$287.1**	$224.4	**$ 317.9**	$238.5	**$ 356.4**	$299.6	**$ 501.4**	$ 428.4	**$1,462.8**	$1,190.9
Net earnings										
Continuing	**$ 13.5**	$ 13.2	**$ 18.0**	$ 14.3	**$ 31.9**	$ 29.7	**$ 96.1**	$ 81.0	**$ 159.5**	$ 138.2
Discontinued	**13.3**	3.5	**.1**	.9	**.2**	3.8	**.3**	.3	**13.9**	8.5
Consolidated	**$ 26.8**	$ 16.7	**$ 18.1**	$ 15.2	**$ 32.1**	$ 33.5	**$ 96.4**	$ 81.3	**$ 173.4**	$ 146.7
Earnings per share										
Continuing	**$ .28**	$ .28	**$ .38**	$ .30	**$ .67**	$ .62	**$ 2.00**	$ 1.70	**$ 3.33**	$ 2.90
Discontinued	**.28**	.07	**—**	.02	**—**	.08	**.01**	.01	**.29**	.18
Consolidated	**$ .56**	$ .35	**$ .38**	$ .32	**$ .67**	$ .70	**$ 2.01**	$ 1.71	**$ 3.62**	$ 3.08

*Gross profit is revenues less cost of sales, buying and occupancy

Business Segment Comparisons
(Millions of Dollars)

	1981	1980	1979	1978	1977	1976
Revenues						
Target	**$2,054.3**	$1,531.7	$1,120.5	$ 898.7	$ 729.0	$ 613.4
Mervyn's	**1,062.3**	826.9	655.9	479.5	369.0	268.0
Department stores	**1,285.5**	1,203.9	1,173.8	1,172.3	1,053.3	952.3
Specialty merchandisers	**540.8**	471.0	434.6	411.4	343.4	292.1
Total	**$4,942.9**	$4,033.5	$3,384.8	$2,961.9	$2,494.7	$2,125.8
Operating profit						
Target	**$ 168.7**	$ 91.1	$ 72.9	$ 61.4	$ 46.4	$ 41.3
Mervyn's	**119.6**	76.3	68.6	44.5	37.4	24.2
Department stores	**89.9**	94.0	103.0	115.3	104.1	94.4
Specialty merchandisers	**36.4**	20.1	23.6	30.5	27.6	19.8
Total	**354.6**	281.5	268.1	251.7	215.5	179.7
Corporate expense	**20.0**	17.6	22.0	18.8	13.2	12.5
Interest (income) expense	**36.6**	5.2	(1.1)	8.2	9.9	8.9
Interest expense on capital leases	**10.5**	8.4	6.5	6.0	5.2	4.4
Unusual expenses	—	—	—	19.8	—	—
Earnings before income taxes	**287.5**	250.3	240.7	198.9	187.2	153.9
Income taxes	**128.0**	112.1	114.2	101.3	95.5	79.4
Net earnings from continuing operations	**159.5**	138.2	126.5	97.6	91.7	74.5
Net earnings from discontinued operations	**13.9**	8.5	65.6	167.3	6.2	2.5
Net earnings	**$ 173.4**	$ 146.7	$ 192.1	$ 264.9	$ 97.9	$ 77.0
Operating profit as a percent of revenues						
Target	**5.3%**	5.9%	6.5%	6.8%	6.4%	6.7%
Mervyn's	**11.3**	9.2	10.5	9.3	10.1	9.0
Department stores	**7.0**	7.8	8.8	9.8	9.9	9.9
Specialty merchandisers	**6.7**	4.3	5.4	7.4	8.0	6.8
Assets						
Target	**$ 886.2**	$ 708.4	$ 443.9	$ 331.2	$ 261.5	$ 213.9
Mervyn's	**597.4**	434.3	322.8	218.4	155.2	116.6
Department stores	**787.7**	734.1	686.1	683.6	626.4	543.7
Specialty merchandisers	**204.5**	224.8	205.4	185.9	151.2	121.9
Corporate	**64.7**	17.9	93.7	66.2	51.6	70.2
	2,540.5	2,119.5	1,751.9	1,485.3	1,245.9	1,066.3
Discontinued operations (net*)	**14.7***	35.7*	41.3*	152.2	165.5	146.8
Total	**$2,555.2**	$2,155.2	$1,793.2	$1,637.5	$1,411.4	$1,213.1
Depreciation						
Target	**$ 35.2**	$ 21.8	$ 13.7	$ 9.8	$ 8.8	$ 7.3
Mervyn's	**17.3**	12.9	8.4	4.9	3.8	2.6
Department stores	**29.8**	25.0	22.3	20.7	19.7	17.7
Specialty merchandisers	**9.5**	7.6	5.8	4.6	3.8	3.3
Corporate	**.4**	.4	.4	.4	.3	.2
	92.2	67.7	50.6	40.4	36.4	31.1
Less depreciation on capital leases	**8.1**	8.2	6.9	6.0	5.2	4.3
Total	**$ 84.1**	$ 59.5	$ 43.7	$ 34.4	$ 31.2	$ 26.8
Capital expenditures						
Target	**$ 118.9**	$ 125.7	$ 102.9	$ 63.7	$ 38.2	$ 23.4
Mervyn's	**68.4**	67.5	46.4	34.5	10.5	8.7
Department stores	**46.5**	51.8	46.1	44.7	43.4	38.9
Specialty merchandisers	**18.7**	20.0	22.5	13.1	10.5	5.1
Corporate	**1.2**	.2	.3	.1	2.3	—
	253.7	265.2	218.2	156.1	104.9	76.1
Less expenditures on capital leases	—	.4	6.9	20.0	10.0	9.8
Total	**$ 253.7**	$ 264.8	$ 211.3	$ 136.1	$ 94.9	$ 66.3

Consolidated Results of Operations

Dayton Hudson Corporation and Subsidiaries

(Thousands of Dollars, Except Per-Share Data)	1981	1980	1979
Revenues	**$4,942,859**	$4,033,536	$3,384,849
Costs and expenses			
Cost of retail sales, buying and occupancy	**3,480,025**	2,842,641	2,353,463
Selling, publicity and administrative	**883,811**	734,322	626,559
Depreciation	**84,989**	59,536	43,720
Rental expense	**71,255**	59,762	50,836
Interest:			
Expense	**39,065**	13,273	9,162
Income	**(2,447)**	(8,066)	(10,224)
Interest and depreciation on capital leases	**18,536**	16,637	13,429
Taxes other than income taxes	**81,018**	65,147	57,229
	4,655,352	3,783,252	3,144,174
Earnings from continuing operations before income taxes	**287,507**	250,284	240,675
Income taxes			
Current	**98,513**	92,314	102,737
Deferred	**29,494**	19,728	11,468
	128,007	112,042	114,205
Net earnings from continuing operations	**159,500**	138,242	126,470
Earnings from discontinued operations (net of income taxes of $6,032, $3,260 and $27,839)	**13,920**	8,477	65,619
Net earnings	**$ 173,420**	$ 146,719	$ 192,089
Net earnings per share			
Continuing operations	**$ 3.33**	$ 2.90	$ 2.67
Discontinued operations	**.29**	.18	1.38
	$ 3.62	$ 3.08	$ 4.05

These financial statements should be read in conjunction with information contained in pages 16-25 and 30-37.

Consolidated Statements of Financial Position

Dayton Hudson Corporation and Subsidiaries

(Thousands of Dollars)	1981	1980
Assets	January 30, 1982	January 31, 1981
Current assets		
Cash	$ 17,412	$ 28,379
Marketable securities	11,000	—
Accounts receivable (net of allowance for doubtful accounts of $22,956 and $26,607)	665,162	556,415
Merchandise inventories (net of accumulated LIFO provision of $135,921 and $130,163)	663,074	543,801
Other	50,754	12,824
Discontinued segment, net	2,143	(892)
	1,409,545	1,140,527
Property and equipment		
Land	139,545	111,125
Buildings and improvements	756,099	643,850
Fixtures and equipment	439,469	340,514
Construction in progress	49,421	64,446
Accumulated depreciation	(352,801)	(287,741)
	1,031,733	872,194
Property under capital leases, net	93,919	100,351
Discontinued segment, net	12,546	36,594
Other	7,425	5,568
	$2,555,168	$2,155,234
Liabilities and shareholders' investment		
Current liabilities		
Notes payable	$ 98,581	$ 28,482
Accounts payable (including outstanding drafts of $89,185 and $74,039)	365,667	358,399
Accrued liabilities	228,417	195,321
Income taxes payable	85,187	66,809
Deferred income taxes—installment sales	111,785	96,615
Current portion of capital lease obligations and long-term debt	11,000	13,631
	900,637	759,257
Capital lease obligations	96,250	103,336
Long-term debt	331,825	213,800
Other	33,775	12,473
Shareholders' investment		
Preferred Stock	112	227
Common Stock	48,046	23,876
Additional paid-in capital	43,904	63,481
Retained earnings	1,101,717	978,784
Treasury Stock	(1,098)	—
	1,192,681	1,066,368
	$2,555,168	$2,155,234

These financial statements should be read in conjunction with information contained in pages 16-25 and 30-37.

Consolidated Statements of Changes in Financial Position

Dayton Hudson Corporation and Subsidiaries

(Thousands of Dollars)	1981	1980	1979
Operations			
Income from continuing operations	**$159,500**	$138,242	$126,470
Depreciation and amortization	**92,314**	67,977	50,749
Deferred taxes	**14,324**	8,550	1,215
Provided by operations	**266,138**	214,769	178,434
Discontinued segment	**38,052**	(5,914)	55,257
Funds provided internally	**304,190**	208,855	233,691
Investment activities and distribution to shareholders			
Expenditures for property and capital leases	**253,733**	265,170	218,238
Acquisition of Ayr-Way**	—	43,506	—
Disposal of property and capital leases	**(7,702)**	(6,695)	(8,709)
Increase (decrease) in working capital*	**195,073**	38,654	(21,498)
Dividends	**50,487**	45,448	40,539
Funds used for investment activities and distribution to shareholders	**491,591**	386,083	228,570
Net financial requirements	**$187,401**	$177,228	$ (5,121)
Financing activities			
Decrease (increase) in cash and marketable securities	**$ (33)**	$ 66,439	$ (33,362)
Additions to long-term debt	**124,470**	110,900	36,004
Reductions of long-term debt	**(8,799)**	(19,065)	(11,982)
Increase in notes payable	**70,099**	28,482	—
Increase (decrease) in capital lease obligations	**(7,093)**	(9,766)	1,488
Other	**8,757**	238	2,731
Net financing provided	**$187,401**	$177,228	$ (5,121)

***Analysis of working capital:**			
Accounts receivable	**$108,747**	$ 34,983	$ 52,582
Merchandise inventories	**119,273**	119,121	31,243
Other current assets	**37,930**	2,889	(2,815)
Accounts payable and accrued liabilities	**(40,364)**	(91,871)	(72,423)
Income taxes—payable and current deferred	**(33,548)**	(6,510)	(14,763)
Discontinued segment—net	**3,035**	(19,958)	(15,322)
Increase (decrease) in working capital	**$195,073**	$ 38,654	$ (21,498)
****Analysis of Ayr-Way acquisition:**			
Capital leases		$ 44,615	
Property and equipment		40,222	
Capital lease obligations		(39,665)	
Long-term debt		(6,069)	
Other		4,403	
		$ 43,506	

These financial statements should be read in conjunction with information contained in pages 16-25 and 30-37.

Consolidated Statement of Shareholders' Investment

Dayton Hudson Corporation and Subsidiaries

(Thousands of Dollars)	Total	Preferred Stock	Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury Stock
Balance February 3, 1979	$ 808,365	$465	$23,652	$58,285	$ 725,963	$
Net earnings:						
Continuing operations	126,470				126,470	
Discontinued operations	65,619				65,619	
Dividends declared:						
Preferred Stock	(251)				(251)	
Common Stock	(40,288)				(40,288)	
Stock options and conversions of Preferred Stock	2,696	(12)	91	2,617		
Balance February 2, 1980	962,611	453	23,743	60,902	877,513	
Net earnings:						
Continuing operations	138,242				138,242	
Discontinued operations	8,477				8,477	
Dividends declared:						
Preferred Stock	(203)				(203)	
Common Stock	(45,245)				(45,245)	
Stock options and conversions of Preferred Stock	2,486	(226)	133	2,579		
Balance January 31, 1981	1,066,368	227	23,876	63,481	978,784	
Net earnings:						
Continuing operations	159,500				159,500	
Discontinued operations	13,920				13,920	
Dividends declared						
Preferred Stock	(106)				(106)	
Common Stock	(50,381)				(50,381)	
Treasury Stock, Preferred Stock and stock option activity	3,380	(115)	184	4,409		(1,098)
Two-for-one stock split			23,986	(23,986)		
Balance January 30, 1982	$1,192,681	$112	$48,046	$43,904	$1,101,717	$(1,098)

Preferred Stock

Authorized 200,000 shares, voting, without par value, outstanding at January 30, 1982 and January 31, 1981, 952 and 5,067 shares, respectively, of $5 Cumulative Convertible Preferred Stock and 10,300 and 17,625 shares, respectively, of $6 Cumulative Convertible Preferred Stock. Both issues have a liquidation value of $100 per share and are redeemable at the Corporation's option at $100 per share. Each share is convertible into 5⅓ shares of Common Stock.

Common Stock

Authorized 60,000,000 shares, $1 par value, 48,045,635 shares issued, 41,626 in treasury and 48,004,009 outstanding at January 30, 1982, 47,751,862 shares issued and outstanding at January 31, 1981.

These financial statements should be read in conjunction with information contained on pages 16-25 and 30-37.

Summary of Accounting Policies

(Thousands of Dollars, Except Per-Share Data)

Consolidation Our financial statements include the accounts of Dayton Hudson Corporation and subsidiaries, all of which are wholly owned, after elimination of material intercompany balances and transactions.

Marketable Securities. We record short-term investments at cost, which approximates market.

Accounts Receivable and Allowance for Losses. Our policy is to write off accounts receivable when any portion of the balance is 12 months past due, or when the required payments have not been received for six consecutive months. We base our allowance for uncollectible customer accounts receivable on our past experience with bad debts and on the ages of the various accounts.

All customer receivables are classified as current assets, including some which are due after one year. This is consistent with the practices of other retailers

For financial reporting, we recognize gross profit on retail installment sales when the sales are recorded. For income tax purposes, we use the installment method of reporting profit on installment sales.

Inventories. Inventories and the related cost of sales are accounted for by the retail inventory method using the last-in, first-out (LIFO) basis

Property and Equipment. Property and equipment is recorded at cost less accumulated depreciation. For financial reporting, we compute depreciation on our property using the straight-line method. For tax purposes, we use accelerated depreciation or the accelerated cost recovery system (ACRS).

Investment Tax Credit. The investment tax credit reduces income taxes in the year we begin using the property.

Financing Costs. We amortize expenses incurred in obtaining long-term financing over the term of the related debt

Per-Share Data. To compute net earnings per share from continuing operations, we deduct Preferred Stock dividends from net earnings and then divide by the weighted average number of common shares outstanding. For earnings per share from discontinued operations, we divide net earnings from discontinued operations by the same number of shares. Exercise of stock options and stock appreciation rights, earnout of performance shares and conversions of Preferred Stock would not materially dilute the earnings per share.

Changes in Accounting Policies and Methods of Application. As of the beginning of 1980, we began capitalizing interest costs related to most of our construction, as required by Statement of Financial Accounting Standards No 34. Prior financial statements were not restated, in accordance with the Statement. In 1981, we incurred \$45,087 in interest costs and capitalized \$6,022 In 1980, we incurred \$21,330 and capitalized \$8,057. Because these costs were previously expensed, the change resulted in additional net earnings of approximately \$4,400 (\$.09 per share) in 1980.

Fiscal Year Our fiscal year ends on the Saturday nearest January 31:

Fiscal Year	Ended	Weeks
1981	January 30, 1982	52
1980	January 31, 1981	52
1979	February 2, 1980	52

Any references to years in this report relate to fiscal years rather than to calendar years.

(Thousands of Dollars, Except Per-Share Data)

As shown on page 21, our capital structure at the end of 1981 included $773,000 of debt and debt equivalents (capital and operating leases). This section provides more information on these components of our capital structure.

Lines of Credit

We had $98,581 of notes payable in the form of commercial paper outstanding at January 30, 1982. During the year, the average amount of commercial paper outstanding was $123,626, at a weighted average interest rate of 15.8%. We maintained $89,500 of unsecured lines of credit with 17 banks. Borrowings under these lines are at the prime interest rate or at other rates agreed upon at the time of the borrowings. We compensate the banks for the lines of credit through the payment of fees and the maintenance of compensating balances. During 1981, our line agreements required us to pay fees of $228 and to maintain average compensating balances of $2,029. These balances were available for withdrawal throughout the year, and they served as part of our operating cash balance.

At year-end, we also had additional credit available in the form of two annually renewable, three-year revolving-credit agreements: one for $175,000 with 11 lending institutions, and one for $75,000 with five lending institutions. In each case, we pay a fee for this availability and have the option of borrowing at the prime rate, at a premium over the London Inter-Bank Offered Rate, or at a premium over domestic certificate-of-deposit rates. Any balance outstanding under the agreements at the end of the three-year period may be converted at our option into a four-year term loan. There were no balances outstanding at January 30, 1982.

Long-Term Debt

We added significantly to our long-term debt during 1981. At year-end, long-term debt due beyond one year was.

	Jan. 30, 1982	Jan. 31, 1981
Sinking Fund Debentures	**$115,870**	$116,702
Sinking Fund Notes	**50,000**	50,000
Other Unsecured Notes—maturing at various dates to 2005 and bearing interest from 6% to 15¼%	**126,813**	16,285
Mortgage Notes—notes and contracts for purchase of real estate, payable over periods ranging to 30 years from inception and bearing interest from 5½% to 14%	**39,142**	30,813
Total	**$331,825**	$213,800

Principal payments on this long-term debt over the next five years will be $5,583 in 1982, $4,171 in 1983, $4,776 in 1984, $6,720 in 1985 and $6,769 in 1986.

In November 1981, we issued $100,000 of 15¼% Notes due 1991. These notes are prepayable at par anytime after November 15, 1986. Also included in Other Unsecured Notes are several industrial development revenue bonds: six issued in 1981 totaling $14,000, and two issued in 1980 totaling $10,900. Various other unsecured obligations of varying maturities make up the balance of this category.

We issued $100,000 of 10⅞% Sinking Fund Debentures due 2005 in May 1980. Annual repayments of $6,650 begin in 1991. Two other issues of Sinking Fund Debentures were also outstanding at year-end: $4,649 at 7¾% and $11,221 at 9¾%. These debentures are redeemable through minimum annual sinking fund payments of $1,250 each. During 1980, we repurchased $12,854 of the 7¾% Debentures and $115 of the 9¾% Debentures. This resulted in a gain of $2,919, which is included in Selling, Publicity and Administrative Expense in our 1980 Results of Operations.

Sinking Fund Notes of $50,000 at January 30, 1982 represent borrowings under a private placement agreement at an interest rate of 8⅜%. Annual principal repayments of $900 begin in 1983, increase to $3,200 in 1985 and continue until 1999.

In most of our long-term debt agreements, as well as the revolving credit agreements, we have agreed to observe certain covenants at the request of the lenders. Among these are provisions relating to working capital, funded debt, dividends and capital stock purchases. Under the most restrictive of these provisions, $315,767 of our retained earnings at the end of 1981 was available for dividends and other types of restricted payments.

As a condition of borrowing under our mortgage notes and contracts, we have pledged related land, buildings and equipment as collateral. At January 30, 1982, $51,678 of our fixed assets served as collateral for these loans.

Leases

We own the majority of our department and Target stores, and lease most of our Mervyn's and specialty merchandising stores.

For financial reporting, we classify leases as either operating or capital leases. Capital leases are recorded as an asset on our Statements of Financial Position and we report interest and depreciation expense on the leases instead of rent expense. Operating leases are not capitalized, and lease rentals are expensed. For tax purposes, we deduct rent expense on all leases.

Most Mervyn's and specialty merchandising store leases are classified as operating leases. Most of the lease agreements for our department and Target stores (including the acquired Ayr-Way stores) are capital leases. In addition, Mervyn's has capital leases with terms ranging up to 10 years on equipment. Most of our leases include options to renew, with renewal terms varying from five to 40 years. Certain leases also include options to purchase the property.

The detail of leased property and equipment which we have capitalized on our Statements of Financial Position is:

	Jan. 30, 1982	Jan. 31, 1981
Real property	**$111,703**	$110,161
Equipment	**30,008**	30,417
Accumulated depreciation	**(47,792)**	(40,227)
	$ 93,919	$100,351

If we were to capitalize the minimum lease payments for all of our operating and capital leases with initial terms of over one year, using incremental interest rates at the inception of the leases, the present value of these payments would be approximately $337,100 at January 30, 1982, and $327,500 at January 31, 1981.

The impact of recording depreciation and interest expense rather than rent on the capital leases has been to decrease our earnings by $.02 per share in each of the last three years. Capital lease depreciation expense was $8,079 in 1981, $8,225 in 1980 and $6,955 in 1979.

The majority of our leases entitle the lessor to receive additional rent if sales of the leased stores exceed certain stipulated amounts. The additional rents are referred to as percentage rents because they are usually based on a percentage of any sales over the stipulated levels. Certain leases require us to pay real estate taxes, insurance and other expenses in addition to rent; in these cases, we have included these expenses in Occupancy Costs in our Results of Operations.

The following table shows our minimum rental payments on all operating leases with terms in excess of one year, plus percentage rent payments:

	1981	1980	1979
Minimum rents	**$41,400**	$35,957	$30,818
Percentage rents			
Operating leases	**15,323**	12,881	10,235
Capital leases	**1,137**	1,070	838
Less sublease income	**(1,363)**	(1,131)	(739)
	$56,497	$48,777	$41,152

Future minimum lease payments which must be made under lease agreements considered noncancellable as of the end of 1981 are:

	Operating Leases	Capital Leases
1982	$ 40,435	$ 16,399
1983	38,348	15,890
1984	36,916	15,196
1985	35,955	14,248
1986	34,486	13,878
After 1986	249,150	155,216
Total minimum lease payments (a)	$435,290	230,827
Less: Executory costs		14,178
Interest		114,982
Capitalized lease obligations, including current portion of $5,417		$101,667

(a) Minimum rental payments have not been reduced by minimum sublease rentals due in the future under noncancellable subleases ($3,149 for operating leases, $5,584 for capital leases).

Commitments and Contingencies

Commitments for construction of new facilities and the purchase of real estate amounted to approximately $141,931 at January 30, 1982. We had additional commitments of $51,679 for equipment purchases.

Our contingent liability for mortgage debt on certain office properties sold in 1976 and the shopping centers sold in 1978 was approximately $48,494 at January 30, 1982. The purchasers have indemnified us for any costs we might incur in relation to the mortgages.

The nature and scope of our business brings our properties, operations and representatives into regular contact with the general public and a variety of other business and governmental entities, all of which subject us to exposure to litigation arising out of the ordinary course of business. Considering the insurance which is in place for a portion of the litigation, and noting that the ultimate consequences of any particular litigation may not be presently conclusively determinable, it is the opinion of our management and of our legal counsel that none of our current litigation will have a material effect on our operations or financial condition taken as a whole.

(Thousands of Dollars, Except Per-Share Data)

Pension Plans

We have three pension plans, which cover all employees who meet certain requirements of age, length of service and hours worked per year. The benefits which they will receive from the plans are defined by the respective plan agreements. A small fourth plan was merged into the major plan early in 1982.

Contributions to the pension plans are made solely by the Corporation and are equal to the amount of pension plan expense determined by an outside actuarial firm. These contributions totaled $12,761 in 1981, $12,704 in 1980 and $11,577 in 1979. To compute pension expense, our actuarial firm estimates the total benefits which will ultimately be paid to eligible employees and then allocates these costs to future periods. To do this, assumptions are made on the years the employees will work, their future salary increases, the number of employees who will earn the right to receive benefits under the plans, and the rate of return (7%) which will be received on the plans' present assets and future contributions.

The amounts of benefits shown in the following statement are the present values of the total benefits which our employees had earned at the end of calendar 1981. Our actuarial firm assumed a 7% rate of return in calculating these present values:

	December 31	
	1981	1980
Contribution receivable	$ 1,068	$ 1,388
Insurance contracts	7,710	7,981
Fixed income securities	59,899	55,268
Equity securities	81,310	79,051
Total assets at market (cost: 1981—$153,268, 1980—$136,718)	$149,987	$143,688
Vested benefits	$142,705	$128,526
Accrued benefits not vested	8,324	7,409
Unfunded liability of one plan	(9,340)	(4,993)
Excess of assets over benefits of other plans	8,298	12,736
Total liabilities and excess of assets over benefits	$149,987	$143,688

Savings and Stock Purchase Plan

Employees who meet certain eligibility requirements (based primarily on age and length of employment) can join the Savings and Stock Purchase Plan. Mervyn's has not yet adopted the plan, so its employees are not eligible.

We contribute 50 cents for each dollar contributed by an employee up to 2½% of each employee's gross cash compensation. Employees can contribute up to 10% of their current gross cash compensation to the plan. Employees are partially vested with respect to the employer contributions after they have been in the plan two years and are fully vested after six years.

The Corporation contributed $3,578 to the plan in 1981, $3,203 in 1980 and $2,880 in 1979.

	December 31	
	1981	1980
Investments at market value		
Dayton Hudson Stock Fund	$19,318	$14,115
Fixed Income Fund	30,755	25,484
Equity Fund	39,656	41,373
Total assets	$89,729	$80,972
Funds payable for securities and plan withdrawals	$ 1,705	$ 1,443
Plan equity	88,024	79,529
Total liabilities and equity	$89,729	$80,972

Stock Options, Performance Shares and Stock Appreciation Rights

We have four stock option plans for key employees. The 1981 Executive Long-Term Incentive Plan is the only one under which new grants are now made. New grants can be for stock options or performance shares, or both. Twelve months after the grant date, 25% of any options granted become exercisable and another 25% after each succeeding 12 months. The options are cumulatively exercisable and expire no later than 10 years after the date of the grant. The performance shares pay cash and stock if certain selected performance goals are met at the end of a four-year period.

The 1976 Executive Long-Term Incentive Plan is essentially the same as the 1981 plan. The 1972 Dayton Hudson Stock Option Plan granted stock options to certain eligible employees between 1972 and 1976. These grants expire 10 years from the date of the grant. Employees who received these grants also received stock appreciation rights that allow them to surrender some of their options in exchange for shares of Dayton Hudson Common Stock. The number of shares of stock which they can receive is based on the difference between the price of the options and the market price of our Common Stock on the day the exchange takes place. Since current accounting principles require the Corporation to record expense for this difference, we encourage these employees to exercise options rather than the related stock appreciation rights.

The fourth plan, the 1976 Mervyn's Tandem Option Plan, applies only to Mervyn's. It awarded performance shares for 84,722 of the options outstanding on February 1, 1982. The remaining options, which expire by 1985, have stock appreciation rights attached.

We base our expense accrual for stock appreciation rights on the relative likelihood that our employees will elect to exercise the rights rather than the related options. We record expense on performance shares and units based on either the grant price of the performance units or the current market price of our Common Stock, and the extent to which the performance goals are being met. We recorded compensation expense of $561, $1,208 and $200 in 1981, 1980 and 1979, respectively. When employees exercise options, the total option price is credited to Common Stock and additional paid-in capital and no expense is incurred.

The number of shares of unissued Common Stock reserved for future grants under all the plans was 1,172,843 at the end of 1981 and 54,374 at the end of 1980. At January 30, 1982, outstanding options for 147,266 shares had stock appreciation rights attached. This number was reduced to 62,544 with the awarding of performance shares under the Mervyn's plan, effective February 1, 1982.

	Options			Performance Shares Outstanding (a)
	Number of Shares	Price Per Share	Shares Exercisable	
1979				
Outstanding, beginning of year	999,068	$ 3.67-$21.59	358,332	112,406
Granted	178,200	19.22- 20.10		
Cancelled	(82,842)	9.03- 19.94		
Exercised	(160,914)	3.67- 18.63		
1980				
Outstanding, beginning of year	933,512	3.97- 21.59	468,054	120,300
Granted	249,010	20.88- 24.72		
Cancelled	(58,746)	14.25- 24.72		
Exercised	(131,110)	3.97- 20.88		
1981				
Outstanding, beginning of year	992,666	3.97- 24.72	507,0[illegible]	134,950
Granted	174,737	26.81- 30.16		
Cancelled	(102,122)	14.25- 28.59		
Exercised	(232,964)	3.97- 24.72		
Outstanding, end of year	832,317	$ 3.97-$30.16	431,860	111,000

(a) Excludes performance shares issued in conjunction with options

Report of Ernst & Whinney, Independent Auditors

Board of Directors and Shareholders
Dayton Hudson Corporation
Minneapolis, Minnesota

We have examined the statements of financial position of Dayton Hudson Corporation and subsidiaries as of January 30, 1982 and January 31, 1981, and the related statements of results of operations, shareholders' investment and changes in financial position for each of the three years in the period ended January 30, 1982. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of Dayton Hudson Corporation and subsidiaries at January 30, 1982 and January 31, 1981, and the results of their operations and changes in their financial position for each of the three years in the period ended January 30, 1982, in conformity with generally accepted accounting principles applied on a consistent basis.

Ernst & Whinney

Minneapolis, Minnesota
March 19, 1982

Responsibility for Financial Statements and Accounting Controls

The financial statements and related information presented in this report have been prepared by our management according to generally accepted accounting principles. Estimates and other amounts in these statements reflect our best judgments. Management is responsible for the presentation, integrity and consistency of the data in the Annual Report.

To discharge this responsibility, we maintain a comprehensive system of internal controls and organizational arrangements designed to provide reasonable assurance that assets are safeguarded from unauthorized use or disposition, transactions take place in accordance with management's authorization and are properly recorded, and financial records are adequate for preparation of financial statements and other financial information. The concept of reasonable assurance is based upon a recognition that there are inherent limitations in any system of internal controls because the cost of the controls should not exceed the benefit derived. After judging the cost and benefit factors, we believe our system of internal controls provides this reasonable assurance.

To ensure the ongoing effectiveness of our internal control system, our goal is to recruit and employ highly qualified people, provide comprehensive written guidelines regarding procedural and ethical matters, and conduct effective training programs. We also provide and promote an environment which encourages free and open communication at all levels in our organization.

The members of the Audit Committee of the Board of Directors, none of whom is a present employee or officer of the Corporation, are listed on page 40 of this report. The committee recommends independent auditors for appointment by the Board of Directors, and reviews their proposed services and their reports. The committee also reviews the internal audit plan and the results of the internal audit effort. Our independent auditors, Ernst & Whinney, our internal auditors, our general counsel and our corporate controller have full and free access to meet with the Audit Committee, with or without the presence of management. The Audit Committee meets regularly to discuss the results of the auditors' examinations and their opinions on the adequacy of internal controls and the quality of financial reporting.

Our financial statements have been audited by Ernst & Whinney, whose report appears on the preceding page. Their report expresses an opinion as to the fair presentation of the financial statements and is based on an independent examination made in accordance with generally accepted auditing standards.

William A. Andres

William A. Andres
Chairman
and Chief Executive Officer

Richard L. Schall

Richard L. Schall
Vice Chairman
and Chief Administrative Officer

Willard C. Shull, III

Willard C. Shull, III
Senior Vice President, Finance

M. M. Pharr

Michael M. Pharr
Senior Vice President and Controller

Ten-Year Comparisons

Dayton Hudson Corporation and Subsidiaries

(Millions of Dollars, Except Per-Share Data)	1981	1980	1979	1978 (a)
Revenues	**$4,942.9**	4,033.5	3,384.8	2,961.9
Cost of retail sales, buying and occupancy	**$3,480.0**	2,842.6	2,353.4	2,055.4
Depreciation	**$ 84.1**	59.5	43.7	34.4
Interest (income) expense	**$ 36.6**	5.2	(1.1)	8.2
Interest and depreciation on capital leases	**$ 18.5**	16.6	13.4	12.0
Earnings Before Income Taxes	**$ 287.5**	250.3	240.7	198.9
Income Taxes	**$ 128.0**	112.1	114.2	101.3
Net Earnings (Loss)				
Continuing	**$ 159.5**	138.2	126.5	97.6
Discontinued	**$ 13.9**	8.5	65.6	167.3
Consolidated	**$ 173.4**	146.7	192.1	264.9
Per Common Share				
Net earnings (loss)				
Continuing	**$ 3.33**	2.90	2.67	2.06
Discontinued	**$ .29**	.18	1.38	3.55
Consolidated	**$ 3.62**	3.08	4.05	5.61
Cash dividend declared	**$ 1.05**	.95	.85	.75
Shareholders' investment	**$ 24.82**	22.28	20.18	16.99
Return on Beginning Equity (Shareholders' Investment)				
Continuing	**15.0%**	14.4	15.6	16.8
Consolidated	**16.3%**	15.2	23.8	45.7
Capital Expenditures	**$ 253.7**	265.2	218.2	156.1
Consolidated Year-End Financial Position				
Working capital	**$ 508.9**	381.3	438.8	427.6
Property and equipment	**$1,031.7**	872.2	629.8	472.2
Leased property under capital leases	**$ 93.9**	100.4	67.2	70.9
Total assets	**$2,555.2**	2,155.2	1,793.2	1,637.5
Long-term capital lease obligations	**$ 96.3**	103.3	73.0	76.8
Long-term debt	**$ 331.8**	213.8	117.6	94.3
Shareholders' investment	**$1,192.7**	1,066.4	962.6	808.4
Average Common Shares Outstanding (Thousands)	**47,894**	47,606	47,382	47,194

The Ten-Year Comparisons should be read in conjunction with the Financial Statements.
Per-share amounts and shares outstanding for 1980 and earlier have been restated to reflect a two-for-one Common Stock split effective November 30, 1981.
(a) Consisted of 53 weeks.

1977	1976	1975	1974	1973	1972 (a)
2,494.7	2,125.8	1,852.2	1,609.3	1,461 7	1,325 2
1,731.6	1,480.1	1,285.2	1,148.1	1,043.8	955.1
31.2	26.8	24 2	22 9	21.0	19.9
9.9	8 9	9.0	14 7	13 5	13 2
10.4	8 7	7.8	6.7	5 2	4 5
187.2	153.9	126.3	59.6	55 6	52 7
95 5	79 4	65 6	29.6	27 5	26 2
91.7	74.5	60.7	30 0	28 1	26 5
6.2	2.5	(.1)	(.4)	2 1	2 9
97.9	77.0	60 6	29 6	30 2	29 4
1.95	1.59	1.31	.66	62	58
.13	.05	—	(.01)	04	.07
2.08	1.64	1.31	.65	66	.65
.65	.525	36	30	27	.265
12 20	10.56	9 26	8 29	7.85	7 39
18.4	17.1	16.0	8.4	8 3	8 4
19.6	17 7	16.0	8 3	8.9	9.3
104.9	76 1	33.4	48.7	40.0	43 7
309.4	288.2	266 2	239 2	246.5	241 0
379.7	317 2	280 0	274.3	260 6	249.3
57.0	52.2	46.7	48 4	41.1	37 7
1,411.4	1,213.1	1,083.2	954 9	909.5	849.5
62.0	56 6	50.6	51.5	43.9	40.0
116.8	111 7	123.8	147.2	164 0	176.4
579.8	499.2	435.9	378 6	358.5	339.7
47,000	46,650	45,894	44,938	44,932	44,856

Total stores in operation at the end of fiscal 1981 numbered 925 in 47 states, the District of Columbia and Puerto Rico. During the year, we added 14 Target stores, 11 Mervyn's stores, four department stores and 65 specialty merchandising stores for a total of approximately 3 million square feet of new retail space.

Year-end totals include stores and retail square feet of Dayton Hudson Jewelers. In January 1982, an agreement was reached to sell Dayton Hudson Jewelers to Henry Birks & Sons Limited of Montreal.

Target	No of Stores	Retail Sq Ft * (000)
Colorado		
Colorado Springs	2	231
Denver	9	930
Ft Collins	1	100
Grand Junction	1	100
Illinois		
Champaign	1	86
Danville	1	81
Moline	1	80
Mt Carmel	1	58
Indiana		
Anderson	1	93
Bloomington	1	86
Carmel	1	82
Clarksville	1	86
Columbus	1	92
Crawfordsville	1	63
Evansville	2	176
Ft Wayne	3	270
Huntington	1	61
Indianapolis	10	935
Kokomo	1	87
Lafayette	1	79
Muncie	1	84
New Albany	1	84
Richmond	1	69
Shelbyville	1	51
South Bend	3	262
Iowa		
Ames	1	45
Bettendorf	1	80
Cedar Rapids	2	180
Clinton	1	60
Des Moines	3	315
Dubuque	1	80
Ft Dodge	1	61
Mason City	1	50
Ottumwa	1	50
Sioux City	1	100
Kansas		
Wichita	2	200
Kentucky		
Louisville	5	427
Louisiana		
Lafayette	1	101
Minnesota		
Duluth	1	96
Minneapolis/St Paul	13	1,420
Missouri		
St Louis	10	1,090
Nebraska		
Omaha	3	310
North Dakota		
Bismarck	1	80
Fargo	1	100
Grand Forks	1	100
Minot	1	80
Ohio		
Middletown	1	79
Oklahoma		
Oklahoma City	4	391
Tulsa	2	226
South Dakota		
Rapid City	1	100
Sioux Falls	1	100
Tennessee		
Knoxville	2	183
Memphis	4	401
Nashville	3	303
Texas		
Austin	2	200
Dallas/Ft Worth	10	1,104
Houston	12	1,287
Lubbock	1	100
Wichita Falls	1	100
Waco	1	101
Wisconsin		
Milwaukee	5	552
Racine	1	101
Total Target Stores	151	14,679

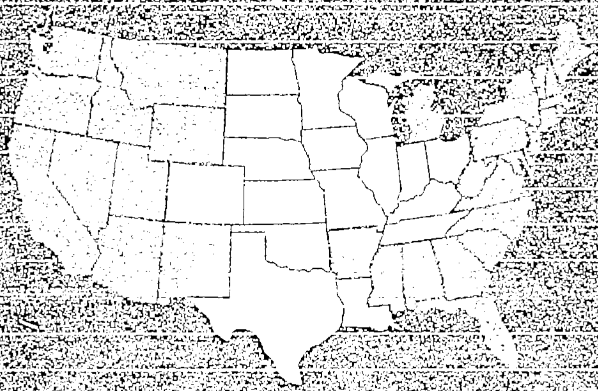
Mervyn's	No of Stores	Retail Sq Ft * (000)
Arizona		
Phoenix	6	493
California		
Bakersfield	1	102
Capitola	1	75
Chico	1	60
El Centro	1	64
Fresno	1	105
Lancaster	1	81
Lodi	1	68
Los Angeles	13	1,021
Marysville	1	67
Merced	1	65
Modesto	1	62
Redlands	1	75
Sacramento	3	202
Salinas	1	60
San Bernardino	1	87
San Diego	3	257
San Francisco Bay Area	16	1,197
San Jose	6	502
Santa Rosa	1	53
Stockton	1	81
Visalia	1	60
Nevada		
Las Vegas	2	159
Reno/Sparks	2	128
New Mexico		
Albuquerque	1	118
Oregon		
Portland	3	279
Texas		
El Paso	2	155
Utah		
Ogden	1	75
Orem	1	90
Salt Lake City	4	355
Washington		
Vancouver	1	82
Total Mervyn's Stores	80	6,278

Department Stores	No of Stores	Retail Sq Ft * (000)
Hudson's		
Detroit, MI	9	3,483
Ann Arbor, MI	1	187
Flint, MI	1	272
Grand Rapids, MI	1	122
Kalamazoo, MI	1	124
Lansing, MI	1	103
Pontiac, MI	1	289
Saginaw, MI	1	122
Fort Wayne, IN	1	122
South Bend, IN	1	123
Toledo, OH	1	187
	19	5,134

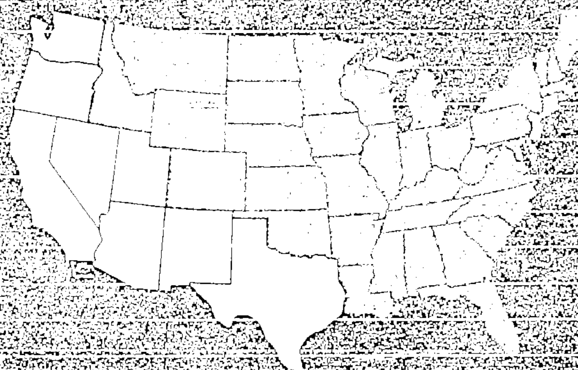
Department Stores	No of Stores	Retail Sq Ft * (000)
Dayton's		
Minneapolis/St Paul, MN		
Department Stores	7	2,496
Home Stores	3	183
Rochester, MN	1	163
St Cloud, MN	1	99
Fargo, ND	1	117
Grand Forks, ND	1	101
Sioux Falls, SD	1	102
La Crosse, WI	1	101
	16	3,362
Diamonds		
Phoenix, AZ	8	1,126
Tucson, AZ	2	224
Las Vegas, NV	3	294
	13	1,644
John A. Brown		
Oklahoma City, OK	4	431
Tulsa, OK	2	201
	6	632
Total Department Stores	54	10,772

Specialty Merchandisers	No of Stores	Retail Sq Ft * (000)
B. Dalton Bookseller		
Northeast	97	392
Southeast	92	313
Midwest	155	524
South Central	78	265
Northwest	33	117
Southwest	122	480
Puerto Rico	2	6
	579	2,097
Lechmere		
Boston, MA	4	751
Springfield, MA	1	159
Manchester, NH	1	82
	6	992
Dayton Hudson Jewelers		
J E Caldwell	12	47
J B Hudson	9	30
J Jessop & Sons	10	32
C D Peacock	7	39
Shreve's	8	28
C W Warren	9	22
	55	198
Total Specialty Merchandisers	640	3,287
Total Retail	925	35,016

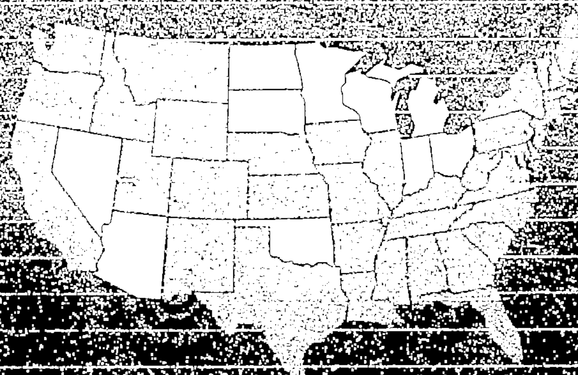
*Retail square feet is total square feet less office, warehouse and vacant space



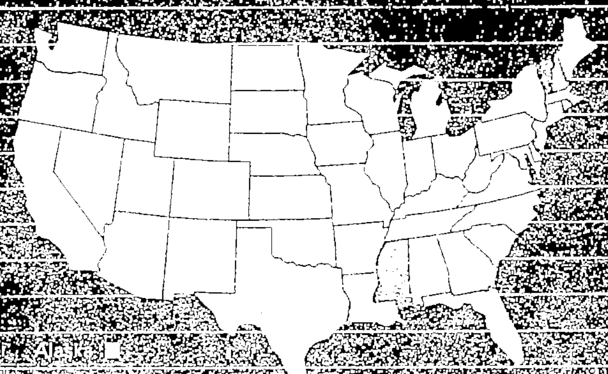
Mervyn's ■



Department Stores ■



Specialty Merchandisers ■



Alaska ■

Puerto Rico ■

Directors

William A. Andres, *Chairman of the Board*[b]

Rand V. Araskog, *Chairman of the Board and Chief Executive Officer, International Telephone and Telegraph Corporation (diversified multinational company)*[a][b][c]

Bruce B. Dayton, *Former Chairman of the Board*[b][c]

K. N. Dayton, *Chairman, Executive Committee*[b]

Donald J. Hall, *President, Chief Executive Officer and Vice Chairman of the Board, Hallmark Cards, Inc. (greeting card manufacturer)*[a][b][c]

Howard H. Kehrl, *Vice Chairman, General Motors Corporation (manufacturer of transportation equipment)*[a][b][c]

Kenneth A. Macke, *President*

Bruce K. MacLaury, *President, The Brookings Institution (research and education organization)*[a][b]

David T. McLaughlin, *President, Dartmouth College*[b][c]

Mervin G. Morris, *Chairman Emeritus of Mervyn's*[a][b]

Richard L. Schall, *Vice Chairman*

William H. Spoor, *Chairman of the Board and Chief Executive Officer, The Pillsbury Company (diversified food producer)*[b]

Alva O. Way, *President, American Express Company (provider of travel, financial and insurance services)*[a][b]

Paul N. Ylvisaker, *Dean of the Graduate School of Education, Harvard University*[b][c]

Shirley Young, *Executive Vice President, Grey Advertising, Inc. (advertising agency)*[b][c]

(a) Audit Committee
(b) Executive Committee
(c) Corporate Responsibility Committee

Officers

William A. Andres, *Chairman and Chief Executive Officer*

Kenneth A. Macke, *President and Chief Operating Officer*

Richard L. Schall, *Vice Chairman and Chief Administrative Officer*

Aldo Papone, *Vice Chairman and Group Officer*

James T. Hale, *Senior Vice President and Secretary*

John F. Kilmartin, *Senior Vice President*

P. Gerald Mills, *Senior Vice President*

Michael M. Pharr, *Senior Vice President*

Willard C. Shull, III, *Senior Vice President*

Edwin H. Wingate, *Senior Vice President*

Peter Corcoran, *Vice President*

Karol D. Emmerich, *Vice President and Treasurer*

Stephen W. Hansen, *Vice President*

William E. Harder, *Vice President and Assistant Secretary*

Peter Hutchinson, *Vice President*

Harry N. Jackson, *Vice President*

George L. Lawson, Jr., *Vice President*

Charles J. Shaffer, *Vice President*

Arthur J. Smith, *Assistant Treasurer*

William P. Hise, *Assistant Secretary*

Operating Company Management

Target
Floyd Hall, *Chairman and Chief Executive Officer*

Mervyn's
John F. Kilmartin, *Chairman and Chief Executive Officer*
Wallace Kalina, *President and Chief Operating Officer*

Department Stores

Hudson's
P. Gerald Mills, *President and Chief Executive Officer*

Dayton's
Bruce L. Burnham, *Chairman and Chief Executive Officer*

Diamonds
Robert J. Ulrich, *President and Chief Executive Officer*

John A. Brown
Thomas G. Payne, *President and Chief Executive Officer*

Specialty Merchandisers

B. Dalton Bookseller
Sherman A. Swenson, *Chairman and Chief Executive Officer*
Richard R. Fontaine, *President*

Lechmere
C. George Scala, *Chairman and Chief Executive Officer*
R. Michael Rouleau, *President*

Corporate Offices
777 Nicollet Mall
Minneapolis, Minnesota 55402
Telephone (612) 370-6948

Annual Meeting
The Annual Meeting of Shareholders is scheduled for 10.00 a.m. Wednesday, May 26, 1982, at The Children's Theatre, Minneapolis Institute of Arts, 2400 3rd Avenue South, Minneapolis, Minnesota.

10-K Report
A copy of the Form 10-K annual report filed with the Securities and Exchange Commission for Dayton Hudson's fiscal year ended January 30, 1982, is available at no charge to shareholders. Write to Director, Financial Relations.

Shareholder Investment Service
The Shareholder Investment Service is a convenient way for Dayton Hudson shareholders to acquire additional shares of the Corporation's Common Stock through automatic dividend reinvestment and voluntary cash purchase. All holders of Dayton Hudson Common Stock may participate. For more information, write to Director, Financial Relations.

Transfer Agents and Registrars
Common Stock; $5 and $6 Preferred Stock
Northwestern National Bank of Minneapolis
The Northwestern Trust Company, New York

Dividend Agent
Common Stock; $5 and $6 Preferred Stock
Northwestern National Bank of Minneapolis

Trustees
First Trust Company of St. Paul
9¾% Sinking Fund Debentures due 1995
10⅞% Sinking Fund Debentures due 2005
15¼% Notes due 1991
First National Bank of St. Paul
7¾% Sinking Fund Debentures due 1994

Stock Exchange Listings
New York Stock Exchange
Pacific Stock Exchange
(Trading Symbol DH)

Shareholder Assistance
For assistance regarding individual stock records and transactions, contact:
Shareholder Relations
Dayton Hudson Corporation
777 Nicollet Mall
Minneapolis, Minnesota 55402
Telephone (612) 370-6735

Dayton Hudson Corporation
777 Nicollet Mall
Minneapolis, Minnesota 55402